

FY 1998

National Taxpayer Advocate's Annual Report to Congress

This is the third annual report by the National Taxpayer Advocate to the House Ways and Means and the Senate Finance Committees as mandated by §1102(a) of the IRS Restructuring and Reform Act of 1998 (Public Law 105-206), enacted on July 22, 1998



Department of the Treasury
Internal Revenue Service

www.irs.ustreas.gov

Publication 2104 (Rev. 12-98)
Catalog Number 23655L



TABLE OF CONTENTS

FOREWORD	v
HIGHLIGHTS OF THE NATIONAL TAXPAYER ADVOCATE'S REPORT TO THE CONGRESS	viii
INTRODUCTION	1
PROGRAM OVERVIEW	1
PROBLEM RESOLUTION PROGRAM (PRP) ORGANIZATION AND BUDGET HIGHLIGHTS	4
PROGRAM SUPPORT	5
COMMUNICATION	5
TAXPAYER ASSISTANCE ORDERS (TAOs)	7
SOURCES OF FY 1998 PRP CASEWORK	9
THE MOST SERIOUS PROBLEMS FACING TAXPAYERS	11
THE MOST LITIGATED ISSUES	73
AREAS OF THE TAX LAW THAT IMPOSE SIGNIFICANT COMPLIANCE BURDEN ON TAXPAYERS OR THE INTERNAL REVENUE SERVICE	85
TAXPAYER ADVOCATE ACTIONS	90
ADVOCACY ACTIVITIES	90
Headquarters Advocacy Initiatives	90
Field Advocacy Council Activities	94
National Taxpayer Advocate Administrative Recommendations	96
LEGISLATIVE PROPOSALS	100
Synopsis of Recommended Legislative Proposals	100
Comprehensive Explanation of Legislative Proposals	110
OTHER	140
Problem Solving Days	140
Citizens Advocacy Panels	141
National Taxpayer Advocate Toll Free Number	143
Senate Finance Committee	144
Taxpayer Equity Task Force	146
APPENDICES	148
I. TAXPAYER ADVOCATE DIRECTORY	148
II. GLOSSARY	154

FOREWORD

September 8th was my first day on the job as the National Taxpayer Advocate. I have spent the time since then learning the organization and getting to know the people who now report directly to me as a result of the IRS Restructuring and Reform Act of 1998 (RRA '98). As a member of Commissioner Rossotti's top management team, I have spent many long hours in meetings. In addition to learning how the IRS operates, I have used these meetings to contribute my ideas regarding what the IRS needs to do to become more service oriented and be more sensitive to the concerns and problems facing taxpayers.

Commissioner Rossotti and Treasury Department officials have been very supportive of me and the new independent role of my office. The preponderance of the executives I have met and worked with have been cordial and supportive and have assisted me in acclimating to the IRS. I have found the staff of the National Taxpayer Advocate's organization to be enthusiastic and ready to embrace the new independent role we have been given. However, they are also worn down and exhausted from a year and a half of incredible increases in the volume of activity due to the Senate Finance Committee Hearings, Problem Solving Days and our commitment to expeditiously resolve taxpayer problems.

The exposure that has been given to the National Taxpayer Advocate's Office over the past several months has provided me with the opportunity to speak out on taxpayer rights and customer service. The new IRS mission statement has also provided an opportunity to reinforce the message both externally and internally. I am on my way to establishing myself as the voice of the taxpayer and the advocate of a more equitable, balanced approach to tax administration.

This report covers the fiscal year ended September 30, 1998. The format and the underlying statistical information contained in this report were determined before I arrived. The management information systems are geared to the format that you see in the report. While much of the material is prescribed by statute, I will be evaluating the style and format during the next year and will be looking for new approaches. However, I have reviewed the recommendations that surfaced through the process put in place last year and concur with them. The taxpayer treatment initiatives do reflect the direction that I will pursue.

In the process of validating the contents of this report with the taxpayer advocates, I asked them two simple questions. What one action would help the taxpayer the most and what was your most gratifying success story during the last year? The responses I received validated the recommendations in this report. The personal nature of the success stories reinforced my views of why this work is so important and the personal nature of the assistance we are giving to taxpayers. When asked what the IRS should do that would help the most, the advocates suggested we provide better walk-in face to

face service and improve access to telephone assistance.

During 1998, IRS introduced the highly successful Problem Solving Days. Over 31,000 taxpayers participated in these events which demonstrated the Service's commitment to doing what must be done to help taxpayers resolve problems. The Service must be more accessible and willing to bring the right resources together to serve the taxpayers. Problem Solving Days have gone a long way toward making this service level a reality. As the organization within the IRS that was given the responsibility to plan and coordinate this program, we plan to continue this practice in 1999. We have also made available a toll-free Problem Resolution Program telephone number (1-877-777-4778) to furnish taxpayers direct access to request assistance from the National Taxpayer Advocate. It is my goal to facilitate the establishment of these practices into day-to-day operations and treatment of taxpayers.

In April 1998, the National Taxpayer Advocate was delegated new authority by the Commissioner to issue Taxpayer Advocate Directives (TADs). This allows the Taxpayer Advocate to grant the equivalent of a Taxpayer Assistance Order for Servicewide procedural issues and correct actions that negatively impact groups of taxpayers. On December 7th I issued the first TAD which directed Operations to abate penalty on "innocent spouse cases" that were suspended by the IRS after passage of RRA '98 awaiting guidance on new equitable treatment language. I wanted to include interest abatement for managerial delay in this TAD as well, but became convinced that the final Treasury Department regulations governing the abatement of interest based on managerial decisions precluded such an action. I have recommended that these regulations be amended to expand the ability of the IRS to abate interest in a more meaningful manner. I believe the statute is more permissive than the current regulations and taxpayers are being denied the benefits of the law.

There are several other TADs that I am considering issuing. This delegated authority is a powerful tool to accelerate the implementation of taxpayer service ideas that have surfaced in our case work. To the extent possible under the law and the regulations, there is a desperate need to stop actions that are inaccurate, offensive and burdensome to the taxpayer up front before there is a need to intervene in a difficult case by a Taxpayer Advocate. I intend to be involved in the development of new tax compliance processes and I will continue to issue future TADs when I feel it is appropriate to alleviate taxpayer problems.

During my years in the tax business I have become familiar with the phrase, "protecting the interests of the government." Over the past three months I have heard the phrase on a daily basis. I have come to realize that, "protecting the interests of the government" in the context it is most often used, is a surrogate phrase for "maximizing the revenue to the government." This means taking a position most restrictive to the taxpayer. Studying RRA 98 and applying the spirit as well as the letter of the law, I realized that Congress had released the Service from thinking this way. It is obvious

that Congress intends that the Service balance the interests of the government with the interests of the taxpayer. This balanced approach will require the Service to walk away from issues and situations that they may not have done in the past. The new IRS Mission Statement reflects this change in philosophy within the IRS. With the Commissioner, I am committed to playing a catalyst role in making this change.

I am excited about the opportunity to present this report to the Congress of the United States and to share my vision for a more taxpayer friendly system. I will do everything within my power to see that taxpayer rights are protected and that the IRS treats everyone with dignity and respect. I will continue to recommend administrative and legislative changes that I feel are needed to make the nations tax system more responsive and less burdensome.

Your expectations of me are enormous. The expectations of the public are even greater. I will give the job my best efforts but want you to understand that the changes that need to take place within our current tax system will require the sustained, best efforts of everyone involved in the taxation process. I am confident that with the commitment of Congress, the Treasury Department, the Commissioner, and IRS employees, we can meet the challenge to provide better service and greater equity to the American taxpayer.

W. Val Oveson

HIGHLIGHTS OF THE NATIONAL TAXPAYER ADVOCATE'S REPORT TO THE CONGRESS

The following is a brief summary of each section of the National Taxpayer Advocate's Report to the Congress highlighting the primary activities of the Office of the National Taxpayer Advocate:

Foreword: Comments by W. Val Oveson, the National Taxpayer Advocate

Program Overview/Problem Resolution Organization (PRP): An overview of the PRP including the objectives and criteria for the program. Also included is a breakdown of the staffing allocated to the program and a nationwide listing of the addresses and phone numbers for all field Taxpayer Advocates (located in the appendices).

Program Support: Information about Taxpayer Assistance Order (TAO) activity on hardship cases, including a summary of the source and disposition of TAO casework. Also contained in this section is a listing of the top ten sources of PRP casework.

The Most Serious Problems Facing Taxpayers: A listing of the most serious problems facing taxpayers and actions being taken by IRS in dealing with those issues is discussed in this section. Feedback received from customer satisfaction surveys conducted with small business and individual taxpayers is also discussed in this portion of the report.

The Top Ten Litigated Issues: A listing of the ten most litigated issues for each of four categories of taxpayers and recommendations for mitigating disputes.

Significant Compliance Burden: Areas of the tax law that impose significant compliance burdens on taxpayers or the IRS, and recommendations for mitigating these problems.

Taxpayer Advocate Actions: A summary of a wide variety of advocacy initiatives undertaken by the National Taxpayer Advocate and by local field offices. This includes administrative proposals as a result of headquarters activity and recommendations received by the Taxpayer Advocate as a result of projects undertaken by Regional Advocacy Councils across the country.

Legislative Proposals: A number of legislative proposals made by the National Taxpayer Advocate which are designed to improve operational processes within the Internal Revenue Service and procedures or provisions established by law that may be causing undue burden or inequities for taxpayers.

Other Taxpayer Advocate Activities: Initiatives dealing with Problem Solving Days, Citizens Advisory Panels, Senate Finance Committee Cases, the Taxpayer Equity Task

Force, and the National Taxpayer Advocate's Toll Free number.

INTRODUCTION

This report by the National Taxpayer Advocate to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate is required by Public Law 105-206, Internal Revenue Service Restructuring and Reform Act of 1998 (RRA '98), Title I, Section 1102a enacted on July 22, 1998 which amended Section 7803 of the Internal Revenue Code.

PROGRAM OVERVIEW

The Problem Resolution Program (PRP) was founded in 1976 as part of the Taxpayer Service organization and reorganized as a separate organizational component the following year. Initially, Problem Resolution Officer (PRO) positions were established only at IRS district offices. The Service soon recognized that many of the taxpayer problems reaching those offices related to service center operations. Consequently, the program was expanded in 1979 and PRO positions were established at each service center. In district offices and service centers, the PRO was a member of the Director's immediate staff.

In late 1979, the Taxpayer Ombudsman, an executive level position on the Commissioner's immediate staff, was created to head the PRP organization and provide greater authority and visibility to PRP both inside and outside the IRS. In 1980, Regional PRO positions were established on the immediate staff of each Regional Commissioner to provide program oversight and assistance to the PROs in district and service center operations.

In 1996 as required by TBOR2, the newly created position of Taxpayer Advocate (TA) and the Office of the Taxpayer Advocate replaced the Taxpayer Ombudsman position and the Headquarters PRP staff. This change enhanced the authority of the position and expanded the office's scope and responsibility. This position change and the assumption of additional duties was also adopted in IRS regional and field offices.

The IRS reorganized and consolidated its regional and district offices in FY 1996. During that year, the Service reduced its field operations from seven to four regions and from 63 to 33 districts. Prior to approving the district reorganization, the Commissioner decided to support the Taxpayer Advocate's recommendation that IRS retain PRO positions in all 63 former district offices. This ensured that each former district location, at least one per state, would maintain a local PRP contact, designated as an Associate Taxpayer Advocate, for continued liaison with taxpayers, local congressional offices, and the tax practitioner community. In December 1997, in response to Congressional concerns about the adequacy of PRP staffing and to assist in dealing with additional casework, the Acting Commissioner approved a recommendation by the Taxpayer Advocate to increase the staffing in the Associate Districts to a minimum of two positions for each location.

In FY 1998, the TA's authority was further enhanced when he proposed and was administratively given the authority to issue **Taxpayer Advocate Directives (TADs)**. These directives enable the TA to require a functional area within the IRS to take specific action that the TA has determined is necessary to protect the rights of taxpayers, prevent undue burden, or ensure equitable treatment. TADs enable the TA to provide relief to a group of taxpayers (or all taxpayers) similar to the authority granted to TAs to issue TAOs to grant relief to individual taxpayers.

Recently enacted RRA '98 has had a significant impact on the Office of the Taxpayer Advocate. It changed the title of the Taxpayer Advocate to National Taxpayer Advocate (NTA) and further expanded the independence, authority, and responsibility of the position.

- The NTA must now be appointed by the Secretary of the Treasury and report directly to the Commissioner of the IRS.
- Rather than report to a District or Service Center Director or Regional Commissioners as they formerly did, field TAs are required to report directly to the NTA (or delegate) and are subject to his evaluation and dismissal.

The NTA is also required by RRA '98 to:

- continue to provide annual reports directly to the House Ways and Means and Senate Finance Committees without prior review or comment from the Commissioner, Secretary of the Treasury, Oversight Board, any other officer or employee of the Department of the Treasury, or the Office of Management and Budget;
- monitor the coverage and geographic allocation of local taxpayer advocate offices. The NTA must ensure that local telephone numbers for each office are published and available to taxpayers served by that office, and
- appoint local TAs and make available at least one such advocate for each state.

The Annual Report to the Congress is due no later than December 31 of each calendar year on the IRS's activities for the past fiscal year. This requirement has enhanced the NTA's authority to ensure that the agency gives appropriate attention to the underlying causes of taxpayer problems and that responsible IRS officials fully consider and formally respond to the NTA's recommendations to improve customer service and IRS responsiveness.

In general, the Annual Report must identify initiatives or problems and specify what actions were undertaken for solving them and the results of such actions. Specifically, the report must contain a summary of the 20 most serious problems encountered by

taxpayers. RRA '98 added the requirement that the report identify 1) areas of the tax law that impose significant compliance burdens on taxpayers or the IRS, including specific recommendations for remedying these problems, and 2) the ten most litigated issues for each category of taxpayers, including recommendations for mitigating such disputes.

During the past five years, the IRS and PRP have developed a greater awareness regarding the need to focus not just on resolving taxpayer problems but looking at the root cause of those problems. PRP has worked diligently to pinpoint and correct system deficiencies that may be contributing to taxpayer problems. As a result, the primary goals of PRP are to assist taxpayers who cannot get their problems resolved through normal IRS channels or who are suffering significant hardships, and then to work with functional management to determine the primary sources or underlying causes of major problem areas in order to improve the performance of IRS systems and prevent the occurrence of similar problems.

The criteria by which cases are brought into PRP are:

- Any contact on the same issue at least 30 days after an initial inquiry or complaint.
- No response by date promised, including commitments made by IRS.
- Any contact that indicates established systems have failed to resolve the taxpayer's problem: or when it is in the best interest of the taxpayer or the Service.

During FY 1998, PRP effectively resolved more than 272,437 cases and received requests for assistance on 32,049 potential hardship cases.

TBOR2 required the establishment of internal procedures, now referred to as the "Commissioner's Reporting & Tracking System," for ensuring a formal IRS response from a designated responsible official within three months to all NTA recommendations. During FY 1998, the NTA submitted 21 recommendations to improve the performance of operational systems and assist taxpayer interactions with the IRS. (For more detail, see the section titled National Taxpayer Advocate Administrative Recommendations).

PROBLEM RESOLUTION PROGRAM (PRP) ORGANIZATION AND BUDGET HIGHLIGHTS

The Office of the National Taxpayer Advocate is represented at the national, regional, service center, and local district office levels.

In concert with the Service's emphasis on improved customer service, the nationwide staff of the Taxpayer Advocate organization increased substantially during FY 1998. Early in the fiscal year, additional staffing was authorized for the downsized former district offices, such that all of them would have at least two Taxpayer Advocate-funded employees on site to assist taxpayers. In April 1998, in response to a marked increase in workload, additional hiring was authorized for district headquarters offices and service centers. The sum of all of these changes was a 36% increase from an initial allocation of 428 positions to a revised total of 584 funded by the NTA.

At the same time that these staffing deficiencies were remedied, the day-to-day office automation needs of Taxpayer Advocate employees were being addressed. The NTA was successful in obtaining additional ADP funding, which was then distributed to field offices.

In early August 1998, the Deputy Commissioner approved a request to establish a separate centralized financial plan for managing NTA resources. The primary goal was to further strengthen independence of action within the IRS. Segregating funding, as a discrete portion of the overall IRS budget, complements the shift to the direct-reporting of field employees, which was mandated by RRA '98. The last two months of the fiscal year were spent making preparations to isolate our funds, effect necessary changes in various financial

A comprehensive directory of all Taxpayer Advocates is provided in Appendix I.

PROGRAM SUPPORT

COMMUNICATION

To effectively represent taxpayers within the IRS, the National Taxpayer Advocate (NTA) must clearly provide options that operate independently and in taxpayers' best interests. Through casework, annual reports to Congress, advocacy initiatives, and other tools, the NTA, at the national level and the local level, must continue to demonstrate full independence inside the organization and earn the trust and confidence of taxpayers that their problems will be resolved fairly and independently. For the NTA to be fully effective, the individual who holds that position must operate as an independent voice for the taxpayer within the IRS and make appropriate recommendations for improving IRS systems and processes that do not work properly or which have unintended negative consequences for taxpayers. This requires both an acceptance and an understanding of the role the Problem Resolution Program plays within the Service. Every taxpayer advocate must ensure that the general public is fully aware of the availability of the program and is capable of gaining access to it if the need arises.

As an ongoing activity to enhance awareness, the NTA and the local TAs make numerous speeches to various tax practitioner groups and at IRS-sponsored symposiums for tax preparers, to discuss changes and enhancements to the Problem Resolution Program and the NTA's position as a result of TBOR 2 and RRA '98 legislation. The NTA has also asked for direct feedback from these groups as part of the process to identify the most significant problems taxpayers encounter in their dealings with the IRS.

In 1998, eleven customer surveys were used to collect feedback from taxpayers who have had direct contact with the IRS either in person, over the phone, or through correspondence with employees. The surveys were designed and administered by a private company. Taxpayers were asked to rate IRS performance in several areas including 1) how they were treated by IRS employees (e.g., courtesy, professionalism, attitude, and responsiveness), 2) how well the IRS explained information, procedures, and taxpayer rights, and 3) what they thought of the time it took to resolve their issue or problem. Taxpayers were also asked to provide feedback on whether they thought they were treated fairly and on their overall satisfaction with the service they received. The results of this effort are included in the section of this report dealing with The Most Serious Problems Facing Taxpayers.

Communication and outreach efforts continue to be high priority items for the NTA. Several ways to improve communications with taxpayers are being pursued. These include:

- A site on the Internet. Currently, the NTA's site is part of the IRS's Internet home page, *The Digital Daily*. The Advocate's site has information about PRP,

including a downloadable Form 911, *Application for Taxpayer Assistance Order*, copies of the Annual Reports to Congress, the Problem Resolution Program Directory, Publication 1, *Your Rights as a Taxpayer*, and TBOR2. During FY 1999, the NTA will complete the establishment of an independent Internet site.

- Access to local TAs. This is being accomplished by 1) ensuring that the telephone number for each local TA is published in the telephone directory for the area served by that TA's office and 2) publishing Notice 1214, *Helpful Contacts for Your Notice of Deficiency*. This notice or "stuffer" accompanies a statutory notice of deficiency and contains the address and telephone number for the taxpayer advocate's office(s) in each state and service center, as well as the address and telephone number for the advocate's office that services taxpayers living abroad or in U.S. territories.
- Maintenance of independent communications. As required by RRA '98, each local TA's office will have a separate telephone, facsimile, and post office address.
- Toll free PRP Telephone Service. The 1-877-777-4778 number is dedicated to taxpayer calls concerning PRP questions and issues. This service was implemented on November 2, 1998 and is available six days a week, 16 hours a day. In 1999, service will be expanded to seven days a week, 24 hours a day. PRP assistants who answer these calls have the capability of providing on-time and on-line resolution. The 1-877 number will be shown in the 1998 tax packages.
- Taxpayer Advocate Training. In 1997, a task force was formed to consider all aspects of PRP training. The primary need identified by this group was the development of training for taxpayer advocates with the emphasis on the way employees interact and communicate with taxpayers. This training was piloted in July 1998.
- Problem Solving Days (PSDs). PSDs began in November 1997 in response to Senate Finance Committee hearings held in September 1997. Over 35,000 people have been given assistance on Problem Solving Days through appointments, walk-in service, or over the telephone. PSDs have provided at least in the eyes of one executive, "the best public relations initiative we have had in 15 years." Monthly PSDs held at all district offices focus on making customer service a priority for IRS, through expanded hours and by allowing taxpayers to make appointments in advance. With appointments, IRS staff can do research in advance and have information about the taxpayer's case available at the PSD. Taxpayers frequently have their problems resolved over the phone and may not need to visit the IRS at all. A report recommending the future direction of PSDs, to bring Commissioner Rossotti's vision of "Every Day is Problem Solving Day" to reality, will be presented to the Taxpayer Treatment

and Service Improvements (TTSI) Executive Steering Committee in December 1998 for a decision.

- Citizen Advocacy Panels (CAPS). A CAP in South Florida District was implemented in 1998. The panel is responsible for holding public meetings, identifying and prioritizing issues by reviewing written correspondence from taxpayers, and reviewing recommendations for action from the Department of Treasury and the IRS. The CAP also prepares special reports, monitors local IRS effectiveness in serving customers and handling complaints, and makes recommendations to improve service. The NTA will assess the impact of this CAP before deciding when and how to expand the program.

In October 1998, the IRS changed its mission statement to “provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.” The Office of the National Taxpayer Advocate will play a crucial and proactive role in enhancing understanding of this mission by communicating with individual and business taxpayers and by educating and assisting them with the resolution of their problems.

TAXPAYER ASSISTANCE ORDERS (TAOs)

In 1988, the Omnibus Taxpayer Bill of Rights (TBOR) expanded PRP’s ability to assist taxpayers by providing statutory authority under Internal Revenue Code (IRC) section 7811 for the Taxpayer Ombudsman or his designees and the Problem Resolution Officers to issue a TAO. A TAO may be issued when necessary to relieve an imminent, significant hardship as a result of the manner in which the tax laws are being administered.

The original statute authorized issuance of a TAO to require the release of property from levy or to cease or refrain from taking actions in certain situations. In 1989, the Commissioner administratively expanded TAO authority to include relief of hardship in situations beyond those specified in the law. TBOR2 included this expanded authority and also allowed the Taxpayer Advocate to specify in a TAO a time period by which the ordered actions must be completed.

During FY 1998, 32,049 Applications for Taxpayer Assistance Order (ATAO) were processed. Taxpayers were granted relief or appropriate assistance was otherwise provided in 73.8% of these cases. Three cases required an enforced TAO (one in Midstates Region, one in Southeast Region, and one in Western Region), in which TAs formally exerted their statutory authority to order relief for the taxpayer. It should be noted that an enforced TAO is required only when the local TA and functional area with responsibility for the action cannot reach agreement on case resolution.

TAO PROGRAM ACTIVITY

FY 1998

ASSISTANCE PROVIDED TO TAXPAYER

	Volume	Percentage
TAO Resolved (Voluntarily)	15,519	65.7
PRP Case Initiated	1,922	8.1
Referred to Function for Resolution	2,118	9.0
Resolved by the PRO Without TAO	933	3.9
Relief Provided Before TAO Issued	3,145	13.3
Enforced TAO	3	*
Subtotal	23,637	73.8

OTHER

Relief Not Appropriate	5,591	66.4
Law Prevents Relief	1,444	17.2
No Action Required(did not meet criteria)	1,377	16.4
Subtotal	8,412	26.2
TOTAL	32,049	100%

Assistance could not be provided in 26.2% of the applications because:

- Relief requested was not appropriate (66.4%)
- The law itself prevented the Service from providing relief (17.2%)
- The ATAO did not meet significant hardship criteria (16.4%)

The breakdown by issues of the total ATAOs processed in FY 1998 is:

- Collection Related Issues 31.4%
- Examination Related Issues 2.6%
- Tax Refund Issues 29.3%
- Processing Issues 9.0%
- Other Issues 20.6%

Relief may be determined to be inappropriate when the remedy the taxpayer is seeking is not justifiable. Some examples of relief that may not be justifiable might be when a taxpayer requests abatement of an additional tax assessment but does not provide supporting documentation to justify the abatement or when granting a request for release of levy would jeopardize ultimate payment of the tax if the taxpayer has neglected or refused to make other arrangements with the Service to resolve his or her delinquency. This fiscal year, as in other years, the largest volume of TAO cases for FY 1998, where the law prevented the Service from providing relief, was in the category dealing with the offset of overpayments (refunds) to other liabilities (e.g.,

defaulted student loans, child support payments, etc.) (IRC section 6402(a)).

During FY 1998, the NTA also finalized a business measure for ATAOs/TAOs. A team of TAs and IRS functional representatives reviewed data from focus interviews with taxpayers, input provided by local TAs, and congressional staff to determine the critical characteristics of the primary products of the TAO program. This measure - ATAO/TAO Quality Customer Service Rate - will be a result of a review of a monthly, random sample of close ATAO/TO cases for certain quality standards. The baseline for the measure will be established during FY 1999.

SOURCES OF FY 1998 PRP CASEWORK

The National Taxpayer Advocate's Problem Resolution Office Management Information System (PROMIS) provides a nationwide database of cases from which statistics may be extracted to determine the categories of problems experienced by taxpayers and the causes and sources of these problems. Major Issue (MI) Codes are used to stratify the cases by type to establish a beginning point for identifying the functional sources of PRP cases and conducting systems analysis where warranted. The most recent analysis of PRP cases provided:

- A picture of the vital few issues involved in a significant portion of PRP casework through the IRS;
- A comparison of casework by MI Code for FYs 1996 through 1998;
- A breakdown of MI Codes by IRS function with primary oversight; and
- A breakdown of MI Codes by centers, regions, districts, and Assistant Commissioner (International).

Analysis indicated that the top ten sources of PRP casework by volume for FY 1998 (which accounted for 61.1% of all PRP closures) were:

1. Revenue Protection Strategy (RPS) - Examination Project (10%)
2. Audit Reconsiderations (9.6%)
3. Penalties Other Than FTD penalties (7.5%)
4. Refund Inquiries (6.5%)
5. Processing Claims (6.0%)
6. Processing Individual Masterfile (IMF) Returns (5.7%)
7. Lost/misapplied Payments (5.2%)
8. Notice Process (5.1%)
9. Installment Agreements (2.9%)
10. Open Audits (2.6%)

This data will continue to be analyzed on a quarterly basis during FY 1999 to identify trends, patterns, aberrations, and possible anomalies. Detailed actions taken to reduce taxpayer problems for these processes are discussed in the Most Serious Problems

Facing Taxpayers section of this report.

A comparative analysis of 1997 and 1998 MI Codes indicates minimal overall change in the top ten problems identified. There has been a shift in ranking within the top ten tier.

- Revenue Protection Strategy (RPS) - This program was developed to reduce tax filing fraud by taxpayers with missing or invalid Social Security Numbers (SSNs) or Earned Income Credit (EITC) qualifying child SSNs. In specific circumstances a taxpayer refund or a portion of the refund can be frozen until supporting documentation is submitted which supports the questioned deduction. RPS moved from number eight in FY 1997 to number one in FY 1998. This increase was a direct result of Revenue Protection Strategy special projects where the refund was frozen pending a response from the taxpayer. Delays in internal processing resulted when employees were reassigned to answer customer service telephone calls during the filing season. This resulted in a high volume of PRP cases.
- Audit Reconsiderations (#2) which ranked first in FY 1998 declined to the second highest source of cases received by PRP. A multi-functional working group chaired by the EOSCO's office, with representatives from Examination and Customer Service, was formed to develop requirements for national implementation of the Centralized Audit Reconsiderations Project, a project which originated in the Western Region. The IRS Executive Committee also approved a change in the time frame for issuance of Examination notices. This change extended the time between notices to improve association of taxpayer correspondence, which reduced the number of Audit Reconsideration cases.
- Document Requests/Handling ranked number nine in FY 1997 fell below the top ten. Alternative records of taxpayer transactions with the IRS are being offered which are free and can be furnished in a shortened time frame.

THE MOST SERIOUS PROBLEMS FACING TAXPAYERS

The FY 1997 Annual Report outlined a comparative listing of the 20 most serious problems encountered by taxpayers drawn from data derived from the PRP Major Issue Code (MIC) analysis and from internal field offices, input from external stakeholder groups, and from taxpayer focus group interviews. During FY 1998, a similar approach was pursued to capture concerns experienced by the three market components.

Data reflecting the IRS's perception of the 20 most serious problems facing taxpayers was collected from field Taxpayer Advocates based on the cause of taxpayer problems encountered through direct contact (telephonic contact and Problem Resolution cases). Trend analysis of Problem Solving Day issues and Senate Finance Committee correspondence was included to refine and update the 1997 list.

External customers and professional groups were polled for their concerns and recommendations regarding the most serious problems they encounter. The list included in this report was developed from letters, reports, and articles from tax practitioners and professional associations gathered since January 1998. The list includes the issues most frequently presented and ranked.

In 1998, the IRS' Strategic Planning Division contracted with a private company to design and administer customer satisfaction surveys. Both individual and small business taxpayers participated in the survey. The data from these surveys was reviewed and catalogued to develop the list reflecting the 20 most serious problems faced by these taxpayer groups.

This approach has shown that the top ten problems identified by the IRS and tax practitioners/professional associations are relatively consistent with each other and unchanged from FY 1997. Likewise, among these two groups as was the case in FY 1997, agreement is less consistent in the next tier of problems 11 through 20. These problems are more isolated and vary in number throughout the country.

The customer satisfaction surveys explore taxpayers' perceptions of the most serious problems encountered from a customer service perspective. There is a general consensus that the underlying root cause of problems encountered stems from the overall complexity of tax administration.

The most serious problems, identified by the focus groups (individual and business taxpayer), tax practitioners/groups and IRS are included in the following table:

The Most Serious Problems Facing Taxpayers

#	Focus Group Summary (Individual & Small Business Groups)	Tax Practitioners	Internal Revenue Service
1	Complexity of Tax Law	Complexity of Tax Law	Complexity of Tax Law
2	Fairness of treatment	Customer Service/Telephone Access	Clarity and Tone of IRS Communication
3	Listening to concerns	Electronic Filing	Administration of the Earned Income Tax Credit (EITC)
4	Length of the process	Offer in Compromise Issues	Lack of One-stop Service
5	Explanation of the process	Penalties	Penalty Administration
6	Consideration of information presented	Notices	Lack of acknowledgment of correspondence and payments
7	Explanation of taxpayer rights	Power of Attorney Issues	Divorced & Separated Taxpayers
8	Time spent on issue	A Uniform Set of Standards Does Not Apply to Everyone. (System Is Unfair)	Offer-in-Compromise (OIC) program issues
9	The attitude of the IRS	Compliance Difficulties for Small Business	Maintaining Taxpayers Current Addresses
10	Lack of responsiveness by the IRS	Lack of Flexibility and Use of Common Sense in Dealing with Collection Situations (Installment Agreements.)	Misapplied Payments
11	Ease of understanding letters/notices/information	False Assertions of Underreported Income	Separate Mail of Math Error Notices and Refund Checks
12	Explanation of adjustments	Lack of Tax Law and Sensitivity Training for Agents and Revenue Officers	Inability to access the toll-free number
13	IRS's automated answering system	Delays Advising Taxpayers Of Problems	Delays in Compliance Contacts
14	Lack of explanation of what IRS expected	Lack of Understanding Taxpayer Concerns.	Understanding Federal Tax Deposit Requirements
15	Ease of getting through to the IRS on telephone access	Tax and Interest Computations	Lack of Concern for Taxpayers' Problems and Issues
16	Explanation of record keeping requirements	Freedom of Information Response Time	Compliance Burden on Small Business
17	Convenience of office hours		Cost to Taxpayers of Electronic Filing

#	Focus Group Summary (Individual & Small Business Groups)	Tax Practitioners	Internal Revenue Service
18	Lack of IRS effort made to resolve problems		Automated Collection System (ACS) Levy Releases
19	Lack of professionalism by IRS staff		Audit Reconsideration/Substitute for Return (SFR) Issues
20			Substitute for Return (SFR) Issues

PROBLEM #1: COMPLEXITY OF TAX LAW

This continues to be the most serious and burdensome problem facing taxpayers. Even the most basic aspects of the law such as filing status, exemptions, and Earned Income Tax Credit (EITC) contain exceptions and special rules that many taxpayers do not understand. Simplifications of tax laws are needed. The yearly implementation of new laws as well as amendments to existing statutes creates confusion among taxpayers. Even the use of computer programs doesn't eliminate complex computations taxpayers have to make to determine their tax liability. Timely training for the IRS employees on new tax laws is critical.

RESPONSIBLE OFFICIAL: Various

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>(1) The IRS worked with the Financial Management Service (FMS), Small Business Affairs Office (SBAO), Public Liaison Office (PLO), and marketing firms to correspond with taxpayers to assist them in meeting enrollment requirements set forth by law for electronic payments. A/C (Electronic Tax Administration) headed a task force to continue marketing efforts with internal and external stakeholders.</p> <p>(2) Counsel has participated with Treasury, in the publication of materials explaining the new educational benefits provisions. Counsel remains available to assist with any additional publications. This is ongoing.</p> <p>(3) Chief Counsel issued guidance notice in late 1997 to partnerships with more than 100 partners.</p> <p>(4) Under the Reduce Unnecessary Filing (RUF), the IRS mailed letters to more than 600,000 taxpayers advising them that they</p>	<p>4. Approximately 114,000 of these letter recipients had filed an unnecessary tax return; of the other letter recipients:</p>	<p>2. The IRS will continue developing new forms and publications and revising products to enable taxpayers to deal with provisions in new tax law. As much as possible, the IRS will obtain feedback from taxpayers by providing drafts of major tax forms on the IRS web site. The IRS will also conduct focus groups to assess how well taxpayers understand and use the draft forms and instructions.</p> <p>4. During FY 1999, the IRS will mail over 450,000 letters to potential unnecessary filers. In addition, about 1.2 million young</p>

PROBLEM #1: COMPLEXITY OF TAX LAW

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>may not have to file an income tax return. This included pensioners to whom the IRS sent a Form W-4P advising that if they stop withholding from their pensions, they may not have to file.</p> <p>5. Numerous outreach and educational initiatives were identified to be carried out during FY 1998 on State and Local Government employer FICA requirements.</p> <p>6. Workshops were held for state/local government employers in all 50 states and Puerto Rico.</p> <p>7. An Audit Techniques Guide (Training 3358-001), to be used for auditing state and local government entities, was developed and distributed to examiners.</p>	<ul style="list-style-type: none"> • about 295,000 did not file a return, • about 119,000 filed a necessary return to either report tax due or to receive a refund of tax withholdings, about 8,800 filed extensions of time to file, and • about 21,000 filed decedent returns. <p>5. Publication 963, Guide For State and Local Government Employers, was published in October 1997. 60,000 copies were printed and stocked.</p> <p>8. With respect to IRC section 119, training</p>	<p>wage earners between the ages of 15 and 23 will be sent a letter and Form W-4. They will be encouraged to file a Form W-4 claiming an exemption from withholding if they qualify for the exempt status.</p> <p>The IRS will send a "thank you" letter to the taxpayers who complied with our request to stop filing; include a worksheet for tax payers to use to determine their filing requirements for TY 1998; and include the toll-free tax forms telephone number for ordering a tax package should they need one. During FY 1999, the RUF web site will be available to help taxpayers understand and determine their filing requirements and compute Forms W-4 and W-4P. Through coordination with the American Association of Retired Persons (AARP), senior citizens using the AARP web site will also have a link to the IRS' RUF web site.</p> <p>8. Supplemental Information will be placed in</p>

PROBLEM #1: COMPLEXITY OF TAX LAW

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>8. IRC section 119(b)(4) was added by the IRS Restructuring and Reform Act of 1998, Section 5002 (Clarification of Exclusion of Meals for Certain Employees). In conjunction with this section, the Office of Employment Tax Administration and Compliance (OETAC) has taken steps to assist employers in the hospitality industry (casinos, hotels, resorts, etc.) on tax issues related to providing meals to employees.</p> <p>9. During FY 1998, six Audit Technique Guides (ATGs) were printed and made available through the Government Printing Office. Nineteen more ATGs were made available on the IRS Home Page on the Internet. As of the end of the fiscal year, 47 ATGs were in print and 32 of those were available on the Internet.</p> <p>10. The VA-WV District has developed a "work fare Initiative" (advocacy project) partnering with Departments of Social Services and State Departments of Taxation to expand Taxpayer Education efforts concentrating on the influx of first time taxpayers resulting from Welfare reform.</p> <p>11. The IRS and the American Bar Association jointly developed an on-line interactive application to educate taxpayers on complying with their tax obligations.</p> <p>12. In September 1998, Exam participated in an Interactional Video Training (IVT) to</p>	<p>material was provided to the field, news releases were issued, and various IRS publication have been or are in the process of being updated.</p> <p>9. Public release of these ATGs is intended to give taxpayers equal access to tax issues within their market segment on the methods and initiatives being used by the Service to address those concerns. By sharing this information with professional groups and industry specific associations, taxpayers and tax practitioners alike gain greater insight into IRS concerns.</p> <p>11. This product, known on the Internet site as TAXi (Tax interactive) is available and is being marketed to educators at the high school level for first time filers.</p>	<p>training materials and IRS Publications.</p> <p>9. A number of ATGs that are currently in process should be completed in FY 1999 and made available to the public. ATGs will also be started on market segments that have not been addressed yet and some of the existing guides will be updated.</p> <p>11. The IRS will continue to monitor, evaluate and improve this application.</p>

PROBLEM #1: COMPLEXITY OF TAX LAW

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>discuss actions taken to communicate new tax laws to RRA '98 Technical Coordinators.</p> <p>13. In October 1998, an Exam function IVT was telecast to RRA '98 Technical Coordinators covering:</p> <ul style="list-style-type: none"> • Privileged Communications • Illegal Tax Protestor Program • Summons • Statutory Notice of Deficiency • Net Rate Interest Netting • Financial Status Audits <p>14. In October 1998, Exam. also video taped separate training segments for Burden of Proof and Innocent Spouse.</p> <p>15. The IRS identified 192 forms, stand alone instructions, and publications that need to be revised by the year 2005 to reflect provisions of the IRS Restructuring and Reform Act (RRA) of 1998. The IRS also plans to develop two new forms for the Act.</p> <p>16. The IRS conducted focus groups during the development of the new worksheet and form for the child tax credits to obtain feedback from taxpayers, because of the complexity of the computations.</p> <p>17. The IRS has contracted for development of an automated Form W-4 to help determine the correct number of exemptions to claim. This is intended to help taxpayers understand and comply with the tax laws.</p> <p>18. Annually, the IRS conducts outreach sessions at convenient community</p>	<p>15. An additional 100+ notices will be reviewed/revised during FY 1999. Presently, the rewrite/redesign for the offset notices is in process.</p>	<p>18. With the focus on RRA '98, all functions in the regions are planning CPE training for IRS employees early in FY 1999. As part</p>

PROBLEM #1: COMPLEXITY OF TAX LAW

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>locations to help taxpayers understand new tax laws.</p> <p>19. Customer Service has participated in the Service wide training effort for RRA '98. The following activities have taken place:</p> <ul style="list-style-type: none">• Chief Counsel has issued "training templates" on the RRA provisions with direct taxpayer impact.• Functions, including Customer Service have held a series of training videos which were interactive on original viewing and which were then reproduced and distributed. Ten TEBBs have been issued for immediate procedural instruction.• The National Resource Center (NRC) has served as a vehicle to identify and resolve policy and legal issues so that the field could implement the Act timely.		<p>of RRA '98, the IRS will use research to identify potential areas of non compliance and develop effective treatments. The IRS will conduct each year after 1998 an analysis of complexity in administration of tax laws.</p>

PROBLEM # 2: CLARITY AND TONE OF IRS COMMUNICATIONS

- Notices are unclear and often untimely.
- Taxpayers are increasingly concerned about what is perceived to be a threatening tone.
- Taxpayers receive multiple notices, rather than one notice encompassing all accounts.
- Written communication is often unresponsive to taxpayers' complaints.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>2. Outreach to state and local government employers was performed via ad hoc taxpayer correspondence.</p> <p>3. Examiners were reminded and further advised that they were not to use threat of audit in attempting to secure Tip Rate Determination Agreements or Tip Rate Alternative Commitments for tip reporting (Section 3414, IRS Restructuring and Reform Act of 1998).</p> <p>4. The Office of Public Liaison and Small Business Affairs sponsored a practitioner liaison meeting featuring the Notice Redesign Project. External stakeholders were asked to submit feedback on the Service's revised notices to taxpayers.</p> <p>5. The IRS is exploring the possibility of combining same issue notices generated in the same week.</p>	<p>2. Two new letters, which are expected to standardize and set a more productive tone, were produced for the State and Local Government Employer Outreach Initiative (L 3035 and L 3036) standardizing outreach invitations.</p> <p>3. A number of memoranda were issued to the field advising that examiners were not to use coercion to secure tip reporting agreements.</p> <p>4. Practitioner liaison groups provided both oral and written feedback to the Acting Notice Gatekeeper on notice redesign.</p>	<p>1. Pursuant to the IRS' major notice redesign efforts, the majority of notices will be redesigned and in production early in Calendar Year (CY) 1999. Ongoing monitoring of notices will continue.</p> <p>2. Taxpayer correspondence will be refined as the need arises.</p> <p>3. Any and all training sessions on tip reporting issues will be used to reinforce the fact that examiners should not use coercion in soliciting tip reporting arrangements with taxpayers.</p> <p>4. Practitioners will continue to be consulted for feedback as additional IRS correspondence is revised.</p>

PROBLEM # 2: CLARITY AND TONE OF IRS COMMUNICATIONS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>6. The Office of Penalty Administration (OPA) has worked with the contractor on the rewrite of notices to be issued January 1, 1999.</p> <p>7. The IRS is continuing internal discussions to determine how the On-line Notice Review System will fit into the Modernization Blueprint.</p> <p>8. The EOCSO established a "Notice Gatekeeper." Submission Processing and Customer Service, in conjunction with the Writing Company of St. Louis, are rewriting math error notices. Many notices have been rewritten with a more taxpayer friendly viewpoint.</p> <p>9. Western Region continues to support national studies and actions to achieve greater notice clarity and improve overall communication skills. Through quality review efforts, the region is reinforcing the use of timely, accurate, and clear, well-toned communications with taxpayers. The region also implemented recommendations for improved communications made in their Compliance Telephone Responsiveness Project report.</p> <p>10. Process analysis was conducted in one district on the correspondence process, and recommendations made for improvement of district correspondence.</p> <p>11. One district detailed an experienced manager to act as Chief, Correspondence in order to ensure that Congressional, Senate Finance Committee, National Office, and District</p>	<p>8. Eleven prototype notices were redesigned and will be implemented in FY 1999.</p>	<p>6. RRA 3306 requires detailed information on penalty notices effective 1/1/2001. A Task force held a meeting in Sept. 1998 to assign primary responsibility.</p> <p>8. About 100+ notices will be reviewed/revised during FY 1999.</p> <p>10. The EOSCO will send the NTA a proposal to improve communications to taxpayers assessed additional tax.</p> <p>11. Task groups recommendations will be implemented to the extent deemed feasible.</p>

PROBLEM # 2: CLARITY AND TONE OF IRS COMMUNICATIONS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>Director cases are properly controlled, timely completed, and outgoing correspondence is responsive and provides appropriate relief.</p> <p>12. A multi functional group has been formed to perform an in-depth review of audit reconsideration cases. This includes considering the clarity of examination reports. Recommendations should be finalized by FY 1999.</p> <p>13. Return delinquency notices are continuously revised for clarity and tone to improve taxpayer comprehension while retaining information to expedite case resolution. Notice responses are reviewed to determine whether taxpayers respond to the notice, or instead, are confused by it.</p> <p>14. Compliance notices are also reviewed to ensure that the tone of the notice is professional and neutral, but that the notice also clearly outlines the consequences of non-compliance.</p> <p>15. Correspondence Examination established a group to rewrite correspondence exam letters for uniform, nationwide communication for the Report Generation System (RGS).</p> <p>16. Internal Audit has recommended having notices contain multiple tax periods. This is not feasible for IMF, but is feasible for BMF.</p>	<p>12. A group, headed by the EOSCO, met several times during FY 1998 and will soon make recommendations on what should be done to decrease the number of audit reconsideration cases.</p> <p>13. During the FY 1998 Return Delinquency Notice Review, several formatting and wording problems were identified which could make correspondence difficult to understand. These notices are being revised.</p> <p>16. This initiative has been suspended until major notice rewrite/redesign efforts are finalized in FY 1999. Limited resources and time during 1998 have not permitted work to accomplish this recommendation on BMF delinquency notices. Revising IMF delinquency notices as recommended is not feasible, because of systemic limitations.</p>	<p>16. RRA '98 requires that all notices, including generated letters, must include precise penalty and interest explanations. As a result, all relevant notices are being redesigned to enhance simplicity and comprehensibility. The redesigned notices are scheduled for implementation by January 1, 2001 and will include a chart showing assessed penalty and interest on the taxpayer account.</p>

PROBLEM # 2 CLARITY AND TONE OF IRS COMMUNICATIONS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
17. Correspondence sent in response to taxpayer inquiries is subject to sample review. Effective writing training courses are available as both classroom and self-study as the manager and employee deem necessary.		

PROBLEM #3: ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC)

- Although targeted to lower income taxpayers, the law regarding EITC is complex. As a refundable credit, taxpayers and return preparers are eager to claim EITC and often do so when unsure of eligibility.
- Many excess EITC claims do not result from fraud or intentional or willful disregard of rules but from incomprehension.
- We must focus IRS education and assistance toward helping taxpayers file correct claims.
- IRS' review and enforcement must identify and deny erroneous claims while minimally impacting legitimate refund claims.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. The IRS sent information to employers. An EITC message was an integral part of the 1998 filing season kick off and was highlighted in the tax packages.2. The IRS conducted market research to determine the effectiveness of the strategies and materials used to publicize EITC and on the most effective ways to communicate EITC provisions of the tax law.3. The IRS contracted with the Xerox Corporation to redesign material relating to the EITC. The objectives are to increase taxpayers' awareness and understanding of the credit and decrease errors in claiming or attempting to claim the credit.4. Results of the EITC check sheet were determined after the 1998 filing season.5. The IRS expanded the use of math error authority to Primary invalid Social Security Numbers (SSNs) for TY 1997. A pre-filing letter to primary taxpayers with invalid TINs was prepared to give them the opportunity	<ol style="list-style-type: none">3. The contract was awarded in September 1998 and planning meetings with Xerox have begun.4. Results were available by late FY 1998.5. The IRS can measure and compare the math error rate for practitioners to the prior year.	<ol style="list-style-type: none">2. Results from this research will be used to design the campaign for 1999 to improve EITC communications and reduce errors.3. During FY 1999, Xerox will collect information about taxpayer behavior regarding the use of IRS materials and assistance, conduct focus groups, redesign the materials and conduct additional focus groups to obtain taxpayer feedback for the redesigned materials.4. The IRS will implement modifications in the 1999 filing season.

PROBLEM #3: ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC)

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>to resolve discrepancies before filing, thereby avoiding the math error process. The pre-filing season notice mail-out was completed in December 1997. This notice was mailed to 607,502 taxpayers. Compliance Research will analyze EITC data and will include comparison of taxpayers who received the letter with those who continue to file with invalid TINs.</p> <p>6. Substantial funding has been appropriated specifically for EITC. Extensive, cross-functional activities were completed for FY 1998 and subsequent years.</p> <p>7. Additionally, EITC Assistance Days were conducted in March and April.</p> <p>8. Tax practitioner and taxpayer ideas, and analysis of returns with EITC errors, were used to determine corrective actions needed. Results of this effort include:</p> <ul style="list-style-type: none"> • If the taxpayer claims EITC but fails to attach a Schedule EITC; the IRS will complete one, whenever possible, using information from other parts of the return. • The IRS will merge taxpayers' accounts if an SSN is found on both the valid and invalid segments of the Master File. This avoids sending the taxpayer a notice and prevents other duplicate account problems. • The IRS will check the primary taxpayer's SSN. If it is invalid, EITC is disallowed through Math Error 	<p>7. Taxpayers received assistance with completing EITC forms.</p> <p>8. All actions were included in FY 1998 IRM instructions which tax examiners used while processing returns claiming the EITC.</p>	<p>6. Extensive, cross-functional activities are planned for FY 1999 and subsequent years.</p> <p>8. Effective in FY 1999, the IRS will begin piloting computer-based training for tax examiners who issue taxpayer errors notices. This will reduce the number of EITC errors being made by our employees.</p> <p>Effective in FY 1999, the Computer Assisted Review of the Error Resolution System will be used to review cases which have resulted in a notice to taxpayers. EITC cases with erroneous notices will be identified, reducing bad notices to taxpayers. During FY 1999, Submission Processing will partner with our Compliance Research function to identify the root causes and corrective actions needed for EITC errors.</p>

PROBLEM #3: ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC)

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>Authority.</p> <p>9. Enforcement activity has continued with significant activity in Adjustments (math error) and Correspondence Examination. Toll-free telephone service was available for all product lines, tax law, notice inquiries and the new EITC Fraud Hotline, specifically for EITC inquiries, which was available 24 hours a day - seven days a week.</p> <p>10. Compliance Division participated in the EITC Compliance Study, and completed the examination of all EITC Study returns in a timely fashion.</p> <p>11. The IRS has established an Earned Income Tax Credit (EITC) Coordinator in each district office.</p> <p>12. Walk-in offices were open on Saturdays for EITC awareness days during the FY 1998 filing season.</p>	<p>10. Results of the study are being tabulated at the National level.</p> <p>11. The district holds EITC Outreach sessions to educate advocates of the EITC eligible community on the provisions of the credit. From January 1, 1998 - September 30, 1998, about 130,000 EITC returns were prepared and about 84,000 EITC questions were addressed in district offices nationwide.</p> <p>12. During Saturday hours, the IRS served over 13,000 taxpayers.</p>	<p>10. Further actions are not planned for FY 1999, as EITC is not a major compliance problem for taxpayers within the International's jurisdiction. International will use the results of the National study to determine if additional actions are warranted.</p> <p>11. Walk-in offices and volunteer sites will be open on 13 Saturdays during the 1999 filing season (January 16, 1999 - April 10, 1999) to prepare EITC returns. The first six Saturdays have been designated as EITC Awareness Days, during which the focus of IRS assistance will be on EITC filers.</p> <p>12. An EITC Train-the-Trainer Video is being jointly produced by Taxpayer Education and Communication Division representatives. This is intended for community advocates for low income individuals. The video will give them information to help them identify taxpayers who qualify for EITC, provide information on filing to claim the credit, and to educate employers about the AEITC</p>

PROBLEM #3: ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC)

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>13. Other issues being worked included the application of the Taxpayer Relief Act of 1997 and the messages that will go out to the taxpayers in relation to this Act. Meetings are continuing with all functions to plan and implement this initiative.</p> <p>14. The IRS conducted publicity relating to EITC recertifications and the 2 and 10 year penalties, as well as the due diligence penalties for practitioners.</p> <p>15. The Office of Public Liaison and Small Business Affairs distributed the draft Form 8867, Paid Preparer's EITC Checklist, to practitioners stakeholder groups for review and comment.</p> <p>16. Revenue Ruling 98-56 and Information Release 98-66 were communicated to practitioner liaison groups.</p>	<p>15. Practitioners were asked to submit comments no later than December 11, 1998.</p> <p>16. The change in rules for claiming the EITC allows more low-income business owners to claim the credit.</p>	<p>option for their employees.</p> <p>16. The temporary regulations on Preparer Due Diligence Requirements for Determining EITC Eligibility will be distributed to the practitioner community as soon as they are released.</p>

PROBLEM #4: LACK OF ONE-STOP SERVICE

Despite efforts to address this problem, taxpayers continue to become frustrated when they must make repeated contacts and deal with several different IRS employees to resolve separate but closely related tax issues. The IRS is often unable to service non-English speaking taxpayers at first contact.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>1. Expanded information on electronic filing options was added to the IRS Homepage. New Internet Services include:</p> <ul style="list-style-type: none">• Information on new tax laws and "Hot" issues• IRS Year 2000 program for trading partners• Free downloadable tax software• Over 80 coordinated issue papers which provide the IRS's current views on industry specific issues• Applicable Federal Rates• Portions of Internal Revenue Manuals• Fill-in the blank forms• Electronic want ads for Service Center positions and electronic recruiting. <p>2. Over one million taxpayer notices annually are issued containing a toll-free number (1-800-829-1040). However, telephone assistants at this number do not have access to the Automated Underreporter (AUR) System. A test was conducted in Philadelphia and Atlanta Service Centers from May 11 through September 26, 1998 which provided a unique telephone number on AUR notices and directed calls to</p>	<p>2. The AUR test was successful. The two service centers answered over 400,000 calls with a level of access of 98 - 100 percent. Secondary abandons (callers who hang up after they call, but before they reach an assistant - generally because of long queue times) were about three percent.</p>	<p>2. Customer Service will initiate six AUR call sites during FY 1999 and FY 2000:</p> <ul style="list-style-type: none">• Philadelphia and Atlanta Service Centers (October 1, 1998);• Fresno and Ogden Service Centers (January 1, 1999); and• Austin and Brookhaven Service Centers (January 1, 2000).

PROBLEM #4: LACK OF ONE-STOP SERVICE

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>employees with access to the AUR system.</p> <p>5. The IRS is committed to "initial contact resolution" — resolving all issues while the taxpayer is on the line or shortly thereafter. Several technologies have enabled the IRS to make significant improvements in service:</p> <ul style="list-style-type: none"> - Systems that enable assistors to access data residing in all ten service centers and allows multiple database access. - Interrelationship of voice Response Units (VRUs) with Automatic Call Distributors (ACDs). <p>6. All IRM authors rewrote IRMs with input from field Customer Service teams with the goal of making them more user friendly for the employees so that service to customers</p>	<p>5. This facilitates answering account questions as well as making account adjustments. This allows up-front issue identification and timely routing of calls to either an automated system or an assistor.</p>	<p>3. Service Center Exam Earned Income Tax Credit Toll-free numbers will also be implemented during FY 1999 and FY 2000.</p> <p>4. Monthly conference calls will be conducted with the ten Adjustment Branch Chiefs to discuss issues such as total inventory and aged cases. Customer Service is proposing that the monitoring of service center overage and controlling of inventories be expanded from Adjustments work to include Taxpayer Relations and Collection cases.</p>

PROBLEM #4: LACK OF ONE-STOP SERVICE

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>would improve. This included using simple English where possible, improving writing style, and including more exhibits as a tool to give clear, concise technical procedures.</p> <p>7. The Area Distribution Centers (ADC's) have successfully negotiated with the union to develop methods that will allow ADCs to answer routine procedural questions that are currently referred to the Customer Service Sites.</p> <p>8. Case managers in the Coordinated Exam Program continue to emphasize One-Stop Service in their meetings with the taxpayer. The Case Manager and audit team are considered the primary points of contact for any IRS issue or problem. This goes beyond just the Exam issues.</p> <p>9. The One-Stop Service initiative in the Coordinated Examination Program (CEP) is emphasized in the CEP Digest Newsletter. The One-Stop Service initiative in the Coordinated Examination Program (CEP) is emphasized in the CEP Digest Newsletter.</p>	<p>7. This resulted in thousands of taxpayers no longer having to make a second call to Customer Service. Following negotiations with NTEU, the telephone staffs at the ADC's were trained to respond to routine procedural questions. Service was operational on February 9, 1998.</p> <p>8. An article on the CEP One-Stop Service initiative was published in the September 1997 newsletter distributed in FY1998. Copies of the CEP newsletter have been distributed to all CEP personnel and outside stakeholders.</p> <p>9. Recent survey of Case Manager's showed that the One-Stop Service initiative was discussed in 92 percent of cases.</p> <p>10. Useful tax forms/publications, quick access to handy withholding tax computation tables, a listing of frequently asked</p>	<p>8. The Case Managers in the Coordinated Examination Program will continue to emphasize the One-Stop Service initiative in their meetings with the taxpayers.</p> <p>9. The One-Stop Service Initiative will be emphasized in the update of the Case Manager's training text and the revision of the IRM. The CEP Peer Review will be following up to see if the Case Managers are emphasizing the One-Stop Service Initiative via surveys of both the Case Managers and the taxpayer. The CEP taxpayer survey will ask for feedback as to the use and effectiveness of the One-Stop Service Initiative.</p> <p>10. OETAC will attempt to have the call-site fully instituted during FY 1999.</p>

PROBLEM #4: LACK OF ONE-STOP SERVICE

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>10. The Office of Employment Tax Administration and Compliance (OETAC) has instituted a Call Site for employment tax matters at the Martinsburg Computing Center, on a test basis (90 days). The Call Site allows for telephone and interactive computer access.</p> <p>11. The Office of Public Liaison and Small Business Affairs is coordinating an Interactive Small Business start-up CD-ROM, a multi-agency approach to providing most if not all of the information and products that a small business would need in one convenient easy to use (and understand) package.</p>	<p>questions, and other employment tax related materials have been consolidated on the IRS Employment Tax WEB Site. This makes it easier and quicker for employers to find needed resources.</p>	<p>11. The first version will be available for review and comment in February 1999 (subject to the timely availability of the new forms and publications).</p> <p>12. The IRS now has a congressional mandate (IRS Restructuring and Reform Act of 1998) to answer "helpline" calls in Spanish, effective January 1, 2000. In order to be ready, Customer Service plans to begin answering calls on Forms 1040, 8815 and 4262 on a limited basis on January 4, 1999. The Service will test the use of an outside translator service for walk-in taxpayers sometime during the 1999 filing season.</p> <p>RRA '98 Short Term Initiatives: Provide Electronic Research tools to front line employees by:</p> <ul style="list-style-type: none"> • Providing on-line support to employees such as SERP, Intranet and on-line reference materials;

PROBLEM #4: LACK OF ONE-STOP SERVICE

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		<ul style="list-style-type: none">Ensuring that the Modernization Blueprint provides that all employees who deal with the public have electronic tools on their desks as their primary source of information and technical support. Use the planned "Modernization" infrastructure to deliver employee performance assistance methods and training capabilities to each employees desktop, including the electronic performance tools developed by Corporate Education.

PROBLEM #5: PENALTY ADMINISTRATION

- The administration of penalties is fragmented into too many locations.
- At times, penalty abatement is used as a tool to negotiate with taxpayers.
- The IRS handbook on reasonable abatement of penalties is not very specific, causing different interpretations.
- The imposition or abatement of a penalty is generally a judgement call, which often translates into lack of consistency in applying criteria.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. A video on "Penalty Relief" was broadcast in August 1997 and released for internal and external stakeholders in September 1997. It is required training for IRS employees.2. The IRS surveyed Examination Division Chiefs to determine the extent to which penalties are inappropriately negotiated. Any corrective action will be based on the results of this survey.3. Revenue Officers have been counseled that penalty abatements are not to be used to negotiate with taxpayers. Managers review requests for abatements solely based on reasonable cause criteria. These requests are accompanied by written requests from the taxpayer or representative signed under penalty of perjury.4. In order to maintain consistency in the FTD penalty relief process, a proposal to centralize penalty abatement relief in one or two service centers was recently evaluated.5. There is no difference in levels of authority for telephone and paper penalty abatement. Training was issued referring employees to	<ol style="list-style-type: none">2. Thirteen percent of the penalties appears to be inappropriately negotiated.3. The IRS has discontinued using abatements of penalties used as negotiating tool. Abatements are now solely based on reasonable criteria merits.4. The proposal was not adopted.	<ol style="list-style-type: none">1. An edited video will be included in Customer Service FY99 CPE. The IRS will work with Corporate Education and all functions on updating training material and accommodating their penalty training needs.2. RRA '98 Section 3304 requires immediate supervisory approval of assessment of penalties in the field. This will help to curb the inappropriate negotiations.4. IRS will emphasize tax examiner education in all work sites.

PROBLEM #5: PENALTY ADMINISTRATION

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>IRM 20 for Reasonable Cause criteria.</p> <p>6. A Taxpayer Service Electronic Bulletin Board (TEBB) was issued October 6, 1998, regarding the mandatory use of Penalty Reason Codes to ensure proper tracking of abatements.</p>		<p>7. The IRS is increasing the Oral Abatement Authority amount from \$250 to \$1000 per tax module. This change will become effective during the first quarter of 1999. Prior to implementing this change, training and a video presentation on penalty consistency and reasonable cause will be given to all affected IRS employees.</p> <p>RRA '98 Short -Term Initiatives: Pursue Penalty Reform</p> <ul style="list-style-type: none"> • RRA '98 3303 - Reduce the FTP penalty by 50% for individuals who timely filed returns and pay by installment agreements. • RRA '98 3304 - Allows the taxpayer to redesignate the application of its deposits in order to minimize the penalty. • RRA '98 3305 - IRS must suspend the imposition of any interest, penalty, addition to tax, or additional amount with respect to any failure to the return which is computed by and which is properly allocable to the suspension period. • RRA '98 3306 - Requires IRS to redesign all penalty notices and to train Exam, Collection and Customer Service employees on who is authorized to approve initial assessments.

PROBLEM #5: PENALTY ADMINISTRATION

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		<ul style="list-style-type: none">• RRA '98 3801 - The Joint Committee on Taxation and the Secretary shall each conduct a separate study reviewing the administration and implementation by the IRS of the interest and penalty provisions of the IRS of 1986.• NPR SBO5.1 - Send a letter to business customers who have made first-time deposit errors to tell them if the penalty has been waived and to tell them how to avoid mistakes in making their next deposit.

PROBLEM #6: LACK OF ACKNOWLEDGMENT OF CORRESPONDENCE AND PAYMENTS

- Unnecessary correspondence is generated due to the lack of acknowledgment or untimely IRS response.
- Customers are not informed of the adequacy of audit reconsideration substantiation and penalty abatement requests.
- IRS assistants cannot confirm to callers that IRS received taxpayer submissions or acted on them.
- IRS computer systems do not permit timely verification of receipt.
- Third parties are not sure that IRS received their responses to levies or summonses.
- Amended returns are not processed timely by the IRS.
- We receive the majority of negative correspondence and PRP cases due to this issue.

RESPONSIBLE OFFICIAL: Various

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>1. The IRS does not acknowledge every piece of incoming mail, because studies have shown that taxpayers often find acknowledgment letters of little value and because of the cost concerned. The Service has made strides in improving the timeliness of responses. From October 1997 through August 1998, the average number of days to close a case was about 15.5 days. For the same period last year, the average was 18.9 days.</p> <p>2. The AUR Program guidelines and procedures state that AUR will issue acknowledgment and/or closure letters to taxpayers when there has been contact regarding an issue and the issue is resolved or closed.</p> <p>3. In the case of delinquency notices, there is a potential for notices to be issued when the taxpayer has responded or sent in payments. To allow time for document processing, IRS delinquency notices are being amended, recommending that the taxpayer ignore the notice if a return has</p>	<p>3. Notice revision is in process and has not been completed.</p>	<p>2. Planned activity in at least one service center includes the systemic issuance of a letter to taxpayers when their account is paid in full.</p> <p>3. A RIS will be prepared to revise Return Delinquency notices</p>

PROBLEM #6: LACK OF ACKNOWLEDGMENT OF CORRESPONDENCE AND PAYMENTS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>been mailed within the prior six weeks.</p> <p>4. During FY 1998, the IRS emphasized the need to improve the timeliness of paper processing.</p> <p>5. A group was formed in January 1998 to look at audit reconsiderations; while there has been slippage in some areas, the group still plans to make substantive recommendations before the end of FY 1999. Because one frequent reason for requesting an audit reconsideration is lack of acknowledgment of adequacy of documentation, recommendations regarding this will be included in the final report.</p> <p>6. The two Customer Service objectives to: reduce the percentage of cases not answered within 45 days and reduce the average number of days for resolution will be monitored. The overage % and "average days to close" indicators are being closely monitored. Both measures show improvement from last year.</p> <p>7. EOSCO assumed responsibility for doing a follow-up review of claims cases. Any resulting recommendations will be implemented or forwarded to functional owners, as appropriate, before the end of FY 1999.</p>	<p>4. The average time to close an Adjustments case decreased from 18.9 days in FY 1997 to 15.5 days in FY 1998 (through August).</p>	

PROBLEM #7: DIVORCED AND SEPARATED TAXPAYERS

- The IRS is unable to reach all parties on joint accounts of separated or divorced taxpayers and to cross reference/update related assessments on the Non-Master File.
- Innocent and Injured Spouse problems are difficult to deal with and resolve to the satisfaction of the taxpayer.
- The IRS does not recognize divorce decree decisions.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. Section 3201 of RRA '98 facilitates the solution to Innocent and Injured Spouse problems.2. The IRS developed a new Form 8857, Request for Innocent Spouse Relief (and Allocation of Liability and Equitable Relief), for taxpayers to use to apply for relief under the provisions in the IRS Restructuring and Reform Act of 1998. The form was under development prior to enactment of the Act but was updated to reflect the new provisions.3. A memo addressing procedures was issued to the field 3/23/98, and on 10/6/98 revised technical and procedural instructions for processing innocent spouse claims with the new Restructuring and Reform Act '98 guidelines incorporated were issued.4. In implementing RRA '98, the IRS began a concentrated effort to provide relief to taxpayers claiming "Innocent Spouse"	<ol style="list-style-type: none">2. A new Form 8857, Request for Innocent Spouse Relief, is now available to the public.3. No enforcement action is taken against the innocent spouse claimant while Examination has the matter under consideration. If jeopardy conditions exist, any enforced collection activity must be approved by the Collection Division Chief. Requests for relief from joint and several liabilities will be treated as priority cases and handled expeditiously.	<ol style="list-style-type: none">1. All examiners are scheduled to be trained in FY 1999 in the revised Innocent Spouse Legislation that was just enacted to address this problem.3. Collection action will continue against the non-claimant spouse; this is an ongoing process.

PROBLEM #7: DIVORCED AND SEPARATED TAXPAYERS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>status.</p> <p>5. The Form 8857 inventory was centralized at the Cincinnati Service Center and is transhipped to CSC from the other service centers to facilitate uniform handling of cases.</p> <p>6. IRM 21 and training materials were revised to incorporate special innocent spouse procedures. Innocent spouse issues will continue to be monitored</p> <p>7. Collection continues to take actions to locate and collect joint liabilities from spouses living apart; this is an ongoing process. However, no enforcement action is taken against the innocent spouse claimant while Examination has the matter under consideration. If jeopardy conditions exist, any enforced collection activity must be approved by Collection Division Chiefs. Normal collection actions will continue against the non-claimant spouse. A memo addressing these procedures was issued to the field on March 23, 1998 and in the summer of 1998.</p> <p>8. The Taxpayer Equity Task Force is reviewing this issue.</p> <p>9. The Western Region Taxpayer Advocate and Regional Advocacy Council initiated the Non-Master File Study which was</p>		<p>8. It has been proposed that innocent spouse relief be the focus of a special Problem Solving Day Event in early 1999.</p>

PROBLEM #7: DIVORCED AND SEPARATED TAXPAYERS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>completed by the Fresno and Ogden Service Centers. The project report and recommendations were presented to the EOSCO for consideration and further development and action to improve processing of these types of tax accounts.</p> <p>10. The Office of Public Liaison and Small Business Affairs communicated information on RRA '98 section 3201, innocent spouse relief, to practitioner and specialized social service organizations.</p>	<p>10. Stakeholder groups received the draft Form 8857, Request for Innocent Spouse Relief, and draft Publication 971, Innocent Spouse Relief, for review and comment. Based on their comments, revisions simplified the form. Q&As were also developed to be released with the final versions of the form and pub. The Notice and news release will be shared with external practitioner liaison and specialized social services groups on or about December 18.</p>	<p>RRA '98 Short-term Initiatives: Protect Taxpayer Rights</p> <ul style="list-style-type: none"> • RRA '98 3201 - Expand innocent Spouse relief, Separate Liability election, and Equitable relief. • RRA '98 3401 - Notify in writing the taxpayer against which a Notice of Federal Tax Lien has been filed. • RRA '98 3501 - Revise certain forms, publications, and notices to alert joint filers of their joint and several liabilities.

PROBLEM #8: OFFER-IN-COMPROMISE (OIC) PROGRAM ISSUES

- The number of OICs has increased due to changes in policy toward their consideration and acceptance. However, the IRS' inability to respond timely and apply the process consistently has added to taxpayers' frustrations.
- There is a lack of clarity and consistency in the program.
- Many offers reveal a need for education about the purpose and requirements of the program.
- Taxpayers do not understand the difference between the terms "process able" and "acceptable."

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
1. During FY 1998, Collection reviewed Form 656 and its instructions to further simplify the form.	1. Changes were made to simplify Form 656 and the projected completion date has been delayed to 1999. The IRS is incorporating provisions from the RRA '98 and the changes in procedures for granting installment agreements to taxpayers are the reasons for the delay. The draft of Form 656 and the instructions require updating based on issues identified by Counsel.	1. Once updates are completed, Form 656 and its instructions will be sent to Publishing Service for printing. Target date is March 1999.
2. Collection reviewed the practicality of using OIC specialists instead of general revenue officers to work offers.	2. District offices will be encouraged to use the specialists instead of general revenue officers to work offers. Collection completed drafts of the position description for the OIC Tax Examiners and Specialists. Collection is working with Personnel for approval of the P.S. and will share with the National Treasury Employees Union (NTE-U) prior to hiring the employees. Delay is due to incorporating RRA provisions to the OIC program.	2. The projected completion date is March 1999.
3. Collection is working to have outreach seminars to educate taxpayers on the OIC Program and provide continuous specialized training for offer specialists.		3. The target date to have OIC seminars ready is April 1999.
4. A decision has been made to train the	4. The training material is being developed.	4. The target date for completion is March

PROBLEM #8: OFFER-IN-COMPROMISE (OIC) PROGRAM ISSUES

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>toll-free sites' staff to address basic taxpayer inquiries about OIC.</p>		<p>1999.</p> <p>RRA '98 Short-Term Initiatives: Broaden Taxpayer payment options whenever appropriate.</p> <ul style="list-style-type: none"> • RRA '98 3462 - Change in offer in compromise procedures. • WORK FORCE FEEDBACK 03 T 2 - Reduce taxpayer burden associated with requesting an OIC. Analyze potential problems, inconsistent treatment, and procedures. Develop, test and implement corrective actions. Note: Linked to RRA 3462. • NEW INITIATIVE 1020-15 - Define improvements needed to enhance customer satisfaction with the installment payment process as follows: <ul style="list-style-type: none"> • Reduce taxpayer burden associated with requesting an OIC. In addition to improvements required by RRA '98 for OICs, implement the following actions: <ul style="list-style-type: none"> ▸ Clarify and streamline OIC process ability criteria ; ▸ Revise OIC Form 656; ▸ Use OIC specialists to process offers; ▸ Select OIC outreach seminars; ▸ Enhance automation efforts; ▸ Establish quality review for OIC

PROBLEM #8: OFFER-IN-COMPROMISE (OIC) PROGRAM ISSUES

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		cases; ▶ Establish OIC deferred payment procedures.

PROBLEM #9: MAINTAINING TAXPAYERS CURRENT ADDRESS

- A lack of notification directly to the IRS often means taxpayers do not receive the needed forms, notices, and/or other correspondence. This is most critical for divorced or separated taxpayers. The IRS does not always take adequate steps to update its files with taxpayers' current addresses.
- Change of address will be sent and 1040, 1120, and the 1065 modules will be changed, but IRS will overlook the other filing requirements, such as for Forms 941 and 940, and the taxpayers will not receive these tax forms automatically as expected and desired.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. A Business Case has been prepared to support permanent use of the National Change of Address (NCOA) database. This would allow the on-going benefits of current address information as provided systemically by the United States Postal Service.2. Tax packages and publications were not carrying address changes available on the NCOA database. Printing contracts with tax package and publication vendors now require that they use the NCOA updating software.	<ol style="list-style-type: none">1. The IRS has prepared a formal request for Chief Counsel to formulate a Treasury Regulation allowing use of the NCOA database.2. The continued use of NCOA for all bulk forms Mallotus has resulted in the address correction or updating of 12 million taxpayer addresses since 1997. In the past, these taxpayer mail pieces (1040's, 941's, Publication 393, etc.) with old addresses would have been non-deliverable or have required additional postage for forwarding services. Also, approximately 7.4 million mail pieces that were identified as undeliverable (moved with no forwarding address on file, P.O. Box Closed, etc.) have been purged from the mailings, thus saving printing and postage costs. Total net cumulative savings has now reached \$2.8 million, while providing better service.	<ol style="list-style-type: none">1. Once the Treasury Regulation is in place, the outgoing correspondence and other mailings will be run against the NCAA database to ensure the latest address known is being used. These matches will also be used to update our Master File.2. The IRS will continue to require vendors to use the NCOA updating software.

PROBLEM #9: MAINTAINING TAXPAYERS CURRENT ADDRESS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		<p>RRA '98 Short-term Initiatives: Simplify notices and correspondence.</p> <ul style="list-style-type: none"> NEW INITIATIVE 1020-07 - Reduce the volume of undelivered mail by: NPR NCO4.1 - Tracking returned and undelivered mail, review current procedures for handling it, and determine precisely how much this process costs the IRS. NPR NCO4.3 - Developing procedures for getting change of address information from taxpayers over the telephone or from a third-party source such as the Postal Service. FSR 002 - Determining the best way of getting change of address information from the United States Postal Service(USPS), including developing and testing interface software and using the USPS database through a licensed vendor

PROBLEM #10: MISAPPLIED PAYMENTS

- Taxpayers continue to be burdened with resolving lost and misapplied payment issues.
- Taxpayers are burdened each year with having to stop payment on checks submitted to the Service and send replacement checks.
- Numerous contacts are received concerning payments mailed with the taxpayers' returns which do not clear the taxpayer's bank.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. The IRS is purchasing new mail sorting and check detection equipment. We are working with the vendor to improve and enhance the check detection equipment features that identify checks concealed within tax documents at the first point of entry into our processing system. This will decrease taxpayer burden with having to send replacement checks and make stop payment requests.2. The IRS is piloting a new system to process payments received at the service centers. The pilot site, Austin Service Center, began production on February 17, 1998.3. The IRS has been studying the feasibility of accepting debit payments for non-TeleFile IMF returns credit card payments.	<ol style="list-style-type: none">1. The system as proposed by the vendor is in acceptability testing with an estimated completion by the end of November.2. Full functionality of the Enhanced Entity Index was not available during the pilot to assess impact. The Entity Index provides up front on line correction capability.3. For Processing Year 1999, the IRS will accept debit payments for non-TeleFile IMF returns as well as pilot test acceptance of certain credit cards through two contracts. Pre-authorized debits will be transmitted with and validated as part of an on-line and practitioner transmitted electronic filing 1040 series returns. One advantage of accepting such payments is associating the entity information with the return upon receipt. In addition, if the taxpayer chooses to designate a delayed payment date of 10 days or more after the filing date, EFTPS	<ol style="list-style-type: none">3. The IRS will assess the effectiveness and use of these alternative payment methods and will investigate other payment possibilities for taxpayers.

PROBLEM #10: MISAPPLIED PAYMENTS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>4. Customer Service receives many of the taxpayer inquiries related to this problem. The SERP system provides employees with quick access to reference materials regarding tracing payments and provides on-line instructions for expeditious front line tracing of lost or misapplied payment case resolution.</p>	<p>financial agents will pre-notify the taxpayer's bank; thereby enabling detection of closed accounts or incorrect account information.</p> <p>Users of TurboTax line of tax software products will be able to charge their Form 1040 balance due to a NOVUS credit card. The payment will only be allowed for the balance due. One advantage of accepting such payments is associating the entity information with the return upon receipt. The IRS will not be involved with the credit card transaction but will receive the resulting payment as guaranteed. The credit card processor will charge the taxpayer a fee for this processing service. All filers will be able to call 1-888-2PAY-TAX and charge their 1998 Form 1040 balance due to either MasterCard, American Express or NOVUS card. Entity information will be validated prior to acceptance of the payment.</p>	

Taxpayers are receiving refunds for less than they were expecting before receiving the notice with the explanation. This results in increased telephone inquiries.

RESPONSIBLE OFFICIAL: Chief Operations Officer

PROBLEM #11: SEPARATE MAILOUT OF MATH ERROR NOTICES AND REFUND CHECKS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>1. The Philadelphia Service Center and the FMS are working on a joint pilot where FMS will print and mail the math error notice in the same envelope with the refund check. However, for electronically deposited refunds, taxpayers will not know why their refund amount was changed until they receive a math error notice in the mail.</p>		<p>1. If the pilot is successful, the IRS will explore the possibility of implementation in 1999. In CY 1999, the FMS will mail the math error notice with the refund check.</p> <p>2. The Refund Offset Program is a burden reduction initiative on increased telephone inquiries regarding taxpayers' anticipated refunds. In FY 1999, the program is moving to the Financial Management System (FMS). For offsets through FMS, the Treasury Offset Program will attach notices of offset to paper checks that are issued to taxpayers. For direct deposits, offset notices will be mailed separately. When refunds are offset in full, offset notices will also be mailed separately.</p>

PROBLEM #12: INABILITY TO ACCESS THE TOLL-FREE NUMBER

In addition to the inability to access the toll-free number, taxpayers continue to express the following Customer Service (CS) concerns:

- Inconvenient hours and office locations;
- Inconsistent answers to the same question;
- Having to take time off from work for Examination appointments;
- Use of voice mail and recorders is frustrating;
- While the IRS has taken steps that significantly increase statistical access to CS assistors, some taxpayers complain that recent measures to increase access actually resulted in less real service, and
- The Telephone Routing System (TRIS) automation reduces taxpayers' exposure to busy signals and time spent on hold by routing a call to whichever CS call site has the earliest available assistor. However, by routing calls all over the country, the IRS does not effectively deal with the nationwide diversity of taxpayer concerns.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
1. The new telephone equipment allows the IRS to explore after hours messaging to provide assistance. A minimum of 40 hours of voice storage and 96 voice ports were installed at IRS call sites to support after hours messaging. Automatic Call Distributors (ACD) also have after hours messaging capability for forms orders.		
2. An EITC initiative was implemented to provide toll-free service to taxpayers with questions related to the EITC. This service was available seven days a week, 24 hours a day on the tax law, refund/EITC, and Criminal Investigation product lines.	2. Over 975, 000 calls were answered in FY 1998.	2. This Initiative will continue in FY 1999. In addition, to promote greater access to the NTA's Office, a toll-free problem resolution number will be offered.
3. The dedicated AUR line improved access for taxpayers who received Underreporter notices. In addition, with these calls directed to a new line, there will be less demand on the 1040 line, which will have an impact on level of access on the 1040	3. During the AUR test, Level of Access (LOA) was between 98 and 100 percent.	3. This test will be expanded over the next two years.

PROBLEM #12: INABILITY TO ACCESS THE TOLL-FREE NUMBER

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>lines.</p> <p>4. Examination resources were used to respond to technical tax law inquiries and to answer incoming calls when existing staffing was insufficient to meet demand.</p> <p>5. To move from the labor intensive process of determining call routing configurations, the IRS utilized "Call Scheduling and Forecasting" software along with the services of an outside contractor to perform a detailed daily analysis. In addition, the IRS used GEO-TEL to move to an automated environment to route traffic.</p> <p>6. The FY 1998 Return Delinquency Program Delinquency Check Schedule was engineered to minimize delinquency notice issuances during the 1998 filing season's peak toll-free period to reduce demand and permit an increased level of access to the toll-free assistance lines. The IMF notice volume was reduced by 610,031 from 1997-1998; further reductions would negatively affect compliance strategies by delaying compliance contacts.</p> <p>7. The IRS continued implementation of the Standardization Report recommendations.</p> <p>8. The IRS coordinated the design and development of a prototype electronic system for assigning EINs. A pilot test of Auto-EIN for Forms 1041 was conducted at the Philadelphia Service Center (PSC).</p> <p>9. Fed/State agreements were developed for state transmission of EIN data electronically and via FAX.</p>	<p>4. More taxpayers were assisted and wait times were reduced.</p> <p>8. Auto-TIN was implemented at the PSC in March 1998. As a result, over 23,000 EINs were assigned using this system.</p> <p>9. There was a proposal to expand the Fed/State program to all states since the</p>	<p>4. Examination resources will continue to be used at call sites during periods of peak demand.</p> <p>5. Beginning in the FY 1999 filing season, Call Routing technology will be used to ensure better management of phone traffic by balancing queue times/talk times.</p> <p>8. The PSC will market Auto-TIN to potential Form 1041 filers and transmitters.</p> <p>9. On November 4, 1998, an FY 1999 nationwide roll out memorandum on the Fed/State initiative was issued to Regional Compliance Officers, Service Center</p>

PROBLEM #12: INABILITY TO ACCESS THE TOLL-FREE NUMBER

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>10. To simplify and expedite assignment of EINs, district office personnel were allowed to assign EINs.</p> <p>11. Coordinated development of the PC-FAX system at the Fresno Service Center.</p> <p>12. Midstates Region continued to develop new marketing strategies to support the movement of telephone calls to alternative information sources or automated systems.</p> <p>13. A working group is considering many proposals to promote taxpayer education and to direct customers to information sources other than toll-free assistors. One of these is to market reproducible forms on CD's for distribution to large employers and quick photocopy centers. Several state counterparts have indicated an interest in having the CD available in their offices</p> <p>14. The IRS offered toll-free telephone service 16 hours/7 days a week during FY 1998.</p>	<p>current program is successful.</p> <p>10. A test with Virginia/West Virginia District for issuing EINs over CS telephones was approved. Since August 17, 1998, over 600 numbers have been issued.</p> <p>11. The PC-FAX systems development was successful.</p> <p>14. The (LOA) increased from 65 percent in FY 1997 to 90 percent in FY 1998.</p>	<p>Directors, and the Assistant Commissioner International. Fed/State will continue to work closely with the service centers during roll out.</p> <p>11. A pilot of the PC-FAX program will be conducted at FSC and OSC.</p> <p>14. Effective January 4, 1999, the IRS will begin providing toll-free telephone service 24 hours/7 days a week. This service will be available on all product lines. Telephone service will also be improved by:</p> <ul style="list-style-type: none"> • Implementing enhanced work scheduling and forecasting technology and • Providing nationwide access to the Service Electronic Research Project (SERP).

PROBLEM #12 INABILITY TO ACCESS THE TOLL-FREE NUMBER

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>16. The IRS introduced the interactive small business CD-ROM</p> <p>17. During the FY 1998 filing season, 178 walk-in offices were open on six Saturdays from March 7 through April 11, 1998.</p> <p>18. IRS implemented the Service-wide Electronic Research Project (SERP), an on-line electronic research tool. SERP benefits include: quick and simultaneous</p>	<p>16. This provided easy to access, use and understand information; forms in fill-in-the-blank format; applicable publications in searchable format; and more. This will help alleviate problems taxpayers experience in accessing the toll-free number.</p> <p>17. Approximately 83,000 taxpayers were served during Saturday hours.</p>	<p>15. To meet customer demand for fast, responsive account assistance by telephone; the IRS will:</p> <ul style="list-style-type: none"> • Expand the TRIS and SCRIPT telephone information systems so that people can find out when and where they can get face-to-face help; • Install equipment in Service Center Examination units so they can take incoming toll-free calls from taxpayers. • Provide the toll-free number on selected outgoing correspondence to taxpayers, and • Monitor and assess the Atlanta Consolidated Call Site Pilot (ACCSP) to determine if concepts merit service-wide implementation. <p>16. The CD-ROM will be available in limited quantity for testing in February 1999. IRS, and specifically Compliance Research, will determine the effect of these products on the level of service the agency provides to small businesses.</p> <p>17. Walk-in services will be provided in over 400 offices nationwide. By January 1, 1999, all offices will be open from 9:00 AM to 4:30 PM. Walk-in offices will offer filing season Saturday services at more than 250 locations for 13 Saturdays from January 16 through April 10, 1999. These locations include traditional walk-in offices as well as nontraditional sites such as community centers and shopping malls.</p> <p>18. By January 1999, CS will expand SERP</p>

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>information broadcast to all IDRS users, improved electronic data access and research productivity, and improved accuracy, timeliness and consistency of information.</p>	<p>18. 3000 current users may now access 1994-1997 tax publications, forms, instructions and schedules; technical probe and response guides; alerts and legal clarifications; Internal Revenue Manuals (IRM 20, 21, 121); CP notices. Correspondex letters; and IRS addresses and post of duty listings</p>	<p>access to 11,000 CS employees. An additional 7,000 terminals in service centers and customer service sites will provide SERP access by the end of FY 1999.</p>

PROBLEM #13: DELAYS IN COMPLIANCE CONTACTS

- Compliance contacts are initiated one to two years after the taxpayer received and/or reported the income. Because of these delays, penalty and interest assessments often exceed the actual tax due.
- The Service is far too slow in its efforts to secure delinquent returns and payments from taxpayers. The longer the Service waits to address a delinquency, the more serious the consequences to the taxpayer.
- Taxpayers should be notified annually of account balances.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. Continued development and implementation of the Business Information Database's (BID) effectiveness in identifying noncompliant taxpayers in 10 districts nationwide. BID is a relational database comprised of integrated internal master file data.2. The IRS approved success criteria in March 1998 and continues BID testing. WR made a process adjustment that reduced the delay in compliance contacts by 6 cycles.	<ol style="list-style-type: none">1. BID will expedite the identification of nonfilers and delinquent returns by enabling the IRS to more quickly identify taxpayers that are noncompliant with established filing requirements. Noncompliant taxpayers are identified by querying and cross checking the BID database.2. The new process is operational in the FSC. The practice resulted from the region's Compliance Elapsed Time Project, which was submitted to the NTA by the Regional Taxpayer Advocacy Council.	<ol style="list-style-type: none">1. 1998 test cases will be evaluated and an TY implementation plan formulated.

PROBLEM #14: UNDERSTANDING FEDERAL TAX DEPOSIT REQUIREMENTS

The IRS should simplify rules and regulations, revise employment tax forms and publications, improve informational material to businesses, conduct ongoing outreach programs, increase access to assistance and make processing improvements to reduce taxpayer burden and increase efficiency.

- The IRS implementation of the Electronic Federal Tax Payment System (EFTPS) is commendable. Some businesses utilizing EFTPS have reported it to be much easier. However, it is very difficult to verify the penalty calculation if a payment is late.
- The complexity of the process may result in erroneous assessments causing additional adjustments.

RESPONSIBLE OFFICIAL: Various

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. The NTA's office reviewed administrative measures that will simplify the process for some taxpayers2. The IRS met with various practitioner groups quarterly to discuss their concerns and to identify which deposit rules need clarification.3. The 941 TeleFile system was available nationwide to eligible employers in April 1998. Employers received a special tax package that included the traditional Form 941 and the 941 TeleFile Tax Record, so they had a choice in their method of filing. Small businesses that have been operating at least 12 months and who are monthly federal tax depositors are eligible. The telephone call takes about 10 minutes and is free. The system is available 24 hours a day, 7 days a week.]4. IRS addressed the problems related to FIFO that resulted in incorrect penalties by establishing a new reasonable cause	<ol style="list-style-type: none">2. The Office of Public Liaison and Small Business Affairs sponsored on EFTPS Forum meeting in June 1998.4. This new procedure became effective July 1, 1998 for CY 1998. RRA '98 section 3304 established a procedure for	<ol style="list-style-type: none">2. The Office of Public Liaison and Small Business Affairs will continue to assist and encourage small businesses with using and understanding the benefits of the EFTPS and support the Simplified Tax and Wage Reporting System (STAWRS) effort.4. IRS will train employees on the procedures for designated deposit after penalty notice and will continue with the

PROBLEM#14 UNDERSTANDING FEDERAL TAX DEPOSIT REQUIREMENTS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>reduction in penalty amount for those taxpayers who miss a deposit early in the quarter but who make timely subsequent deposits. Increased the Form 941 quarterly threshold for making deposits from \$500 to \$1,000.</p> <p>5. The IRS developed a profile of the employers who did not receive penalties during the study period. The Pacific Northwest DORA site began work analyzing data in February 1998.</p> <p>6. IRS will continue to analyze data from the FTD Penalty Study that was completed July 1997.</p> <p>7. As of July 1, 1998, taxpayers may petition the IRS for penalty relief if one or more penalties assessed is the result of a single missed or late deposit.</p>	<p>designating deposits in 90 days after penalty notice (effective January 18, 1999). For deposits after December 31, 2001, deposits will be applied Last In First Out (LIFO). More taxpayers were assisted and wait times were reduced. Examination resources will continue to be used at call sites during period of peak demand.</p> <p>5. This increase became effective for the quarter ending September 30, 1998.</p> <p>7. This study was terminated due to the unavailability of master file data needed for research and analysis</p>	<p>implementation actions on LIFO.</p> <p>6. The IRS will continue to analyze data from this study to identify additional groups that are at risk for noncompliance. The Pacific Northwest DORA site is expected to complete its analysis in FY 1999.</p> <p>7. OSC is building a database of all penalty taxpayers. The first ad hoc report using this data is projected for FY 2000.</p> <p>8. Beginning CY 1999, taxpayers having "first time deposit errors" will receive a notice informing them of an FTD penalty waiver and explaining depositing mistakes to avoid future deposit penalties.</p> <p>RRA '98 Short-Term Initiatives: To create an IRS culture that values employees and rewards top quality service:</p> <ul style="list-style-type: none"> • Revise the IRS mission to focus on

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		<p>taxpayer needs;</p> <ul style="list-style-type: none"> • Structure reward and recognition guidance to support customer service and problem solving; • Conduct an internal assessment process to identify barriers to good customer service such as the video conferences used by the Commissioner in FY 1998. This initiative will provide more detail specifically geared to customer service than SFA/corporate climate surveys. • Establish as standard practice that all executives and managers who oversee taxpayer contact functions will interact directly with taxpayers on a regular basis, either by individual contact or through special vents such as PSDs and town hall meetings; implement a targeted and comprehensive communications campaign aimed at awareness of internal and external audiences to customer focus changes within the IRS; • Create a brochure to highlight and communicate the CS expectations of its employees; Improve the culture by; a) improving the Customer Feedback System, b) implementing tests to improve operations based on Customer Satisfaction Surveys and c) implementing customer satisfaction measures.

PROBLEM #15: LACK OF CONCERN FOR TAXPAYERS' PROBLEMS AND ISSUES

- Employees often view taxpayer problems with "functional" blinders rather than seeing the problem from the taxpayer's point of view.
- Practitioners are repeatedly asked for Powers of Attorney by various IRS employees in different locations.
- Toll-free telephone systems do not allow for taxpayers' questions and concerns to be addressed with local consideration (e.g., community property laws.)
- Taxpayers do not understand why it takes several weeks and sometimes months to resolve their problems/issues.

RESPONSIBLE OFFICIAL: Various

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>1. IRM (21)00 (the Customer Service manual) and related reference materials are in the process of being revised.</p> <p>3. Western Region is working with Corporate Education to identify and deliver training needs of all public contact employees in regard to RRA '98. CPE classes will be conducted throughout the region in time for the 1999 filing season. Steps have been taken to ensure local considerations are addressed. For example, although toll-free calls are routed to various call sites throughout the country, calls from Alaska and Hawaii taxpayers are retained in Western Region call sites.</p> <p>4. The CAP in South Florida is providing citizen input by identifying problems and</p>		<p>1. For FY 1999, these materials were revised to incorporate all information (including local procedures) needed by Customer Contact Representatives (CSRs) to respond to taxpayers. National job aids were developed to provide consistent tools for CSRs. Nationwide training on the IRM, job aids, and technical issues were also developed.</p> <p>2. During FY 1999, the rewriting and redesign of notices will continue. This will have a positive impact on customer satisfaction.</p>

PROBLEM #15: LACK OF CONCERN FOR TAXPAYERS' PROBLEMS AND ISSUES

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>making recommendations for improvement of IRS systems and procedures. Town hall meetings are being scheduled to listen to taxpayer's concerns.</p> <p>5. Small business taxpayers have raised concerns about the lack of guidance concerning the tax treatment of the costs involved in obtaining ISO 9000 certification (a quality systems designation generally sought by companies engaged in international trade).</p> <p>6. The Office of Public Liaison and Small Business Affairs coordinated meetings regarding the Low Income Taxpayer Clinic Program. A staff member also attended the American Bar Association's (ABA) Annual Meeting featuring a panel discussion on the low income taxpayer clinics.</p> <p>7. The Office of Public Liaison and Small Business Affairs requested input from the American Association of Retired Persons (AARP), the Federation of Tax Administrators (FTA), and several practitioner organizations to Reduce Unnecessary Filing (RUF).</p> <p>8. The IRS implemented customer satisfaction surveys for walk-in, ACS, service center examination, and toll-free telephone service. The surveys emphasize a non-functional perspective of taxpayers' concerns and will identify significant issues for improvement in coming years.</p> <p>9. IRS implemented a new Grade 8 Customer</p>	<p>5. The Office of Public Liaison and Small Business Affairs sponsored a liaison meeting between their representatives and IRS and Treasury executives to begin discussions on the issue.</p> <p>6. Chief Counsel will address technical and operational issues raised by external stakeholders regarding the low income taxpayer clinic program.</p> <p>7. The survey results have been very positive but have identified areas for improvement such as fairness of treatment and listening to taxpayers' concerns.</p>	<p>5. Further meetings are planned after guidelines are established delineating the types of costs companies encounter in seeking the certification. Guidance will be requested from Chief Counsel.</p> <p>6. IRS personnel will attend the ABA's Section of Taxation Winter Meeting January 16, 1999, and participate in a panel discussion on various issues surrounding implementation of the low income taxpayer clinics.</p> <p>7. This initiative will be rollout in FY 1999.</p> <p>8. Surveys will continue in FY 1999. IRS will work to improve the areas identified.</p>

PROBLEM #15: LACK OF CONCERN FOR TAXPAYERS' PROBLEMS AND ISSUES

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>Service Representative position which includes cross functional expertise and problem solving in its critical elements. Employees who are under the new position description will be responsible for and trained to see problems from the taxpayer's point of view and resolve them expeditiously.</p> <p>10. The Customer Service Quality Review System monitors responses given to taxpayers who contact the IRS with tax law questions.</p> <p>11. Practitioners who have requested Powers of Attorney (POA) often do not wait the stipulated amount of time before contacting the IRS to resolve client cases. If the practitioner calls before the POA form has been input or posted to IRS systems, an additional form is requested to protect taxpayer privacy. In 1998, the IRS conducted a task force to look at this issue and determine ways to improve service.</p>	<p>10. The monitoring process identifies whether an assistor provided a complete and correct response and provides direction regarding actions to take.</p> <p>11. The problem has often been due to an IDRS systemic limitation. The command code used to research the POA file now has universal IDRS access. Forms 2848 input in any IRS office can now be researched nationwide by the use of universal access. The CS manual has been updated to include instructions for caseworkers to perform complete research for remote databases locating an active POA.</p>	<p>10. The quality review centralized site will be expanded in FY 1999 to include remote monitoring of other types of taxpayer telephonic inquiries. Also, the customer service database will include data elements addressing whether the IRS employee explained, when applicable, the required time frames for any expected outcomes.</p> <p>11. In FY 1999, CS plans to implement a new process as recommended by the task force to input the POAs where they are received rather than sending them to the service centers for input. POAs will be available on the CAF file immediately rather than the current 15 to 20 days.</p>

PROBLEM #16 COMPLIANCE BURDEN ON SMALL BUSINESS

- Tax withholding, reporting, and filing requirements are a heavy burden on small businesses.
- Legislation is needed to lessen complexity for small business owners; for example, pension requirements for small businesses are too complex for the average business owner.
- There is little coordination between local, state, and federal agencies to help small businesses learn information.
- Educational and compliance initiatives need to be directed toward self-employed taxpayers.
- Small businesses need assistance on a one-to-one basis before they have problems.

RESPONSIBLE OFFICIAL: Chief Operations Officer and Chief Communications and Liaison

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none"> 1. Taxpayers misunderstand the tip reporting requirements. The Tip Reporting and Education Program has been widely advertised to employers and their associations in the various industries. 2. IRS Market Segment Specialization Program (MSSP) Specialists and Taxpayer Education Coordinators interact with local industry, trade associations and practitioners. The National Director spoke at several ELF seminars (open to practitioners) and to the National Society of Tax Practitioners. 3. The Simplified Tax and Wage Reporting System (STAWRS) reduced employer tax and wage reporting burden through the development of three major initiatives: Simple Point Filing, Simplified Requirements, and Streamlined Customer Service. 4. The IRS and the State of Montana 	<ol style="list-style-type: none"> 1. Numerous Tip Reporting Alternative Commitment arrangements have been arranged with employers. Since inception through FY 1998, 8,638 Tip Reporting Alternative Commitments and 1,377 Tip Rate Determination Agreements have been executed impacting approximately 31,445 establishments 2. Practitioners, small businesses and other taxpayers have learned from IRS personnel and have surfaced a number of their concerns during these speaking engagements. 3. STAWRS reduced employer compliance burden, particularly for small businesses. 	<ol style="list-style-type: none"> 1. The Office of Employment Tax Administration and Compliance (OETAC) will continue to provide the right educational environment through the use of the Tip Rate Determination and Education Program. 2. Interaction will continue with local industry (small businesses), trade associations, practitioners and the public. 4. Live filing will take place in Montana for the first quarter of FY 1999.

PROBLEM #16 COMPLIANCE BURDEN ON SMALL BUSINESS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>entered into a cooperative agreement to allow for the demonstration of operational combined paper filing. Combined</p> <p>employment returns were developed and tested in the states of Montana and Iowa.</p> <p>5. STAWRS established the Harmonized Wage Code (HWC) Project to develop and recommend a consistent body of employment tax-related definitions. The database contains more than 20,000 separate provisions, grouped into several hundred general categories.</p> <p>6. STAWRS also developed the Targeted Harmonized Wage Code (THWC) that deals with the 13 most common employment tax provisions affecting 85 percent of the 6.7 million employers who employ 20 or fewer employees.</p> <p>7. STAWRS One Stop Customer Service created and maintains an Internet gateway for linking users to the sites of relevant government agencies.</p> <p>8. STAWRS also completed a Form W-2 Demonstration Project. For TY 1993 and 1996, the Social Security Administration extracted state data from W-2s and transmitted the data, along with employer and employee entity data, to the IRS. The IRS then appended the addresses from the Master File, sorted it by states, and sent it to participating states for their use.</p> <p>9. STAWRS also began a project that</p>	<p>5. The database is available to employers and other stakeholders on the IRS Web site.</p> <p>6. Provides the benefits of standard criteria for both Federal and State withholding requirements and their social welfare: Social Security and State unemployment insurance requirements.</p> <p>7. The gateway provides a comprehensive, unified interface that enables employers to access information on all STAWRS participating agencies.</p> <p>8. The states tested the data and found it very useful, not only as a compliance tool, but also as a means to reduce employer burden by removing the requirements to file Forms W-2 with the state.</p> <p>9. Electronic Data Interchange (EDI) now allows employers to file Form W-2</p>	<p>6. The THWC is in final review and will be available on the IRS Web site by the end of the first quarter of FY 1998.</p> <p>8. The IRS is coordinating the economic feasibility portion of the project that will determine the cost-sharing agreement leading to project institutionalization.</p> <p>9. STAWRS plans to begin Phase II of the</p>

PROBLEM #16 COMPLIANCE BURDEN ON SMALL BUSINESS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>electronically refines the W-2 process. Phase I of this project was completed.</p> <p>10. IRS District Offices in conjunction with state and federal agencies offer Small Business Tax Workshops to educate small business owners about their filing requirements.</p> <p>11. The IRS and the Small Business Administration (SBA) completed a successful pilot program that provided for the distribution of IRS small business informational tax forms and publications at five of the SBA's Business Information Centers (BICs).</p> <p>12. Language was developed by the SBAO for inclusion in nine publications to inform the public about SBREFA, the office of the SBA Ombudsman and the regional fairness boards. These publications were published in 1998.</p> <p>13. Examination Division amended Notice 782, "Examination Process," to include applicable SBREFA.</p> <p>14. IRS developed an FTD video. This video describes the deposit rules in very simple terms. The video is available for internal and external stakeholders.</p>	<p>electronically directly to SSA using a standard EDI format. Data can be exchanged among Federal and State governments.</p> <p>11. By the end of CY 1998, the pilot will roll out nationally and a substantial number of IRS tax forms and publications (including a CD-ROM) will be available at all 50 BICs and 13 One-Stop Capital Shops under the IRS's Bank, Post Office and Library (BPOL) Program.</p> <p>14. The Pacific Northwest Small Business Laboratory, Office of Penalty Administration (OPA) and Corporate Education partnered on this video. It was presented in the PNW ABC's of FTDs pilot training class in</p>	<p>project during FY 1999.</p> <p>10. In FY 1999, IRS will redesign the current Small Business Tax Education Program (STEP) to better assist small business owners in meeting their tax rights and responsibilities.</p> <p>11. The redesign of the IRS into business components will eliminate much of the burden in this area by concentrating on the special needs of the small business community.</p> <p>14. The pilot will continue with the objective of rolling it out nationwide. The training program addresses primarily the concerns of small businesses.</p>

PROBLEM #16 COMPLIANCE BURDEN ON SMALL BUSINESS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>15. The IRS and SBA's Association of Small Business Development Centers (ASBDC-s) are planning to have as many of the ASBDC locations participate in the BPOL.</p> <p>16. The IRS and SBA signed a Memorandum of Understanding (MOU) for a pilot program that will place IRS technical education specialists at BIC's in Boston, Chicago, Atlanta, and Los Angeles.</p> <p>17. Partnered with the SBA and other agencies to develop an interactive CD-ROM that provides small businesses with convenient and easy-to-access tax, regulatory and business information. The CD-ROM contains hyper-links to the Internet sites of federal regulatory agencies and states.</p> <p>18. An Executive Small Business Transition Committee was formed to address the needs of small business during the IRS's reorganization.</p>	<p>September 1998.</p> <p>18. The Committee is providing guidance making recommendations, and assisting with the prioritization of small business initiatives that have the greatest impact on burden reduction and customer and employee satisfaction.</p>	<p>15. If the program is initiated, IRS tax forms and publications used by the small business community will be available at nearly all 1,200 ASBDC locations beginning in CY 1999.</p> <p>17. The CD-ROM will be available in limited quantity in February 1999. The CD-ROM will continue to be improved based on experience, testing, and user feedback . The content will be expanded through partnering with additional federal regulatory agencies. Future development includes a small business web site that mirrors the information provided on CD-ROM (which will, in time, reduce the need for the CD-ROM).</p> <p>18. Technical education specialists will be at BICs for one day each week beginning early in CY 1999. They will provide educational assistance to small business taxpayers on an array of tax matters. The pilot program will reduce burden on small business owners by allowing them to obtain assistance from both the IRS and the SBA at a single location.</p> <p>RRA '98 Short-Term Initiatives:</p> <ul style="list-style-type: none"> • Make technical corrections to clarify the Small Business Exemptions;

PROBLEM #16 COMPLIANCE BURDEN ON SMALL BUSINESS

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		<ul style="list-style-type: none">• Amend IRC section 280A to specifically provide that home office qualifies as the principal place of business if the taxpayer meets a two-part test and• Provide relevant information to new employers when they apply for a Federal Employer Identification Number (FEIN).

PROBLEM #17: COST TO TAXPAYERS OF ELECTRONIC FILING

- Commercial charges for electronic filing continue to be a burden for low income taxpayers seeking a quick refund.
- Constant changes to the program from deadlines to criteria for qualifying discourage practitioner participation.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none"> 1. 3,068 software packages were provided to support electronic filing at VITA sites. 700 computers were shipped to 33 districts. 2. The IRS issued the RFP. Industry responses were received and contracts were awarded. 3. Automated Walk-in Assistance and Electronic Transmission provided free electronic filing for taxpayers requesting assistance with return preparation. This program will continue in walk-in offices throughout the regions. 4. Five Hyperlinks with IRS' Digital Daily were created in 1998 for free advertising of industry partner software in exchange for providing free or reduced cost electronic filing for taxpayers. 5. ETA implemented a total of six nonmonetary agreements for the 1998 filing season 7. IRS influenced partners, especially industry leaders, to reduce or eliminate fees for electronic filing 	<ol style="list-style-type: none"> 2. This resulted in issuance of contracts for new programs to help increase the use of electronic methods of filing returns and paying taxes. 4. Over 23,000 returns were filed electronically as a result of the hyperlinks. 5. Several of the agreements permitted taxpayers to access electronic filing software via the Internet. Electronic filing could be done for as little as \$4.95. 6. H&R Block and Jackson Hewitt both offered free electronic filing throughout a large portion of their offices and 	<ol style="list-style-type: none"> 4. In reaction to the agreements IRS had reached, Intuit unilaterally has decided to offer free Federal and State electronic filing via the Internet to taxpayers with an Adjusted Gross Income of \$20,000 or less. 6. Hyperlink Agreements will be for one year (filing season 1999) with an option of extending the agreement into the Year 2000 filing season. 7. This effort is continuing on an ongoing basis.

PROBLEM #17: COST TO TAXPAYERS OF ELECTRONIC FILING

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>8. Increased emphasis on marketing and marketing partnerships between the IRS and tax practitioners resulted in the establishment of an IRS electronic filing brand name, development and distribution of a professionally developed marketing tool kit, and support in print and electronic media with public service announcements.</p> <p>9. Practitioners recognized at Nationwide Tax Forums created an incentive for other practitioners to compete for similar recognition.</p> <p>10. Established a Distribution Channel Management Strategy to recognize and reward the performance of electronic filing practitioners that advanced IRS goals.</p> <p>11. Stabilized the rules for the IRS Electronic Filing and On-Line programs</p>	<p>franchisees. The Quicken Tax Freedom Project offered free electronic filing to taxpayers with AGIs \leq \$20,000, and free electronic filing software to VITA sites (transmission fees apply).</p> <p>7. Larger than expected increase in electronically filed individual income tax returns that indicated the acceptance of the IRS electronic filing format on a broader scale. Increased acceptance leads to a bigger market which increases competitive pricing strategies. More practitioners getting into the IRS Electronic Filing Program also leads to more competition and competitive pricing strategies.</p> <p>9. Market penetration as well as quality were key factors in determining award recipients.</p> <p>11. Changed the revenue procedure governing the IRS Electronic Filing Program from one that changes every year to one that only changes when there are major program changes.</p>	<p>8. IRS will increase marketing support.</p> <p>10. Will continue development of the Distribution Channel Management Strategy to use more rewards, recognition and incentives to promote electronic filing goals.</p> <p>11. Publication 1345 will be revised. Publication 1345 is the main publication governing the IRS Electronic Filing Program.</p>

PROBLEM #17: COST TO TAXPAYERS OF ELECTRONIC FILING

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		<p>RRA '98 Short-Term Initiatives: Develop a comprehensive strategy to encourage electronic filing of tax and information returns:</p> <ul style="list-style-type: none">• Accept alternative methods of payment;• Increase marketing of all IRS <i>e-file</i> products;• Increase electronic options for businesses, and• Build an ETA technical infrastructure.

PROBLEM #18: AUTOMATED COLLECTION SYSTEM (ACS) LEVY RELEASES

Levies are not always released quickly enough to stop proceeds from being sent thus creating a hardship on some taxpayers. The causes seem to involve interview techniques, not faxing levy releases per Internal Revenue Manual (IRM) instructions, and misunderstood time frames in getting routine levy releases to third parties.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. Developed IRM 21.23, Enforcement Actions, which provides detailed, easily researchable information on levy release decisions.2. Dollar and other measures rewarding "hard line" attitudes were dropped. New indicators are being developed.		<ol style="list-style-type: none">1. The IRM, which is effective January 1, 1999, added emphasis and examples to the levy release procedures. Also, the smaller overall IRM format and the directive that it be used in lieu of local guides and instructions will enhance procedural uniformity.2. Complete the ACS Redesign Study in FY 1999.3. Implement recommendations of the study that reviewed liens and levies:<ul style="list-style-type: none">• Implement the time limit change for pursuing collection after which a manager's approval will be required to continue working the case;• Classify lien fees as nondiscretionary;• Eliminate ACS lien filing for cases being assigned to the queue. Instead, tie the lien filing to a period of time after the first semi-annual reminder notice for liabilities in the queue. (An implementation plan is in place and includes a RIS to change the queue notice to taxpayers, coordination with CS, and the determination of how and by whom a lien will be filed.)• Expand the tiered interview for CS and for revenue officers, and• Establish a sunset date of 180 days for

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
		notices of intent to levy.

PROBLEM #19: AUDIT RECONSIDERATIONS/SFR

- Taxpayers and their representatives complain that IRS is inconsistent and untimely in handling requests for audit reconsiderations.
- Audit Reconsiderations consistently rank among the top three major issues of Problem Solving Day cases, Senate Finance Committee cases, and the general Problem Resolution Program.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<ol style="list-style-type: none">1. MSR conducted an analysis of cases trying to identify the demographics of people involved in reconsiderations.2. Examination added staff to allow timely processing and added procedures to prevent collection activity.3. As a result of a taxpayer advocacy project, Western Region centralized its Audit Reconsideration processes in the Fresno and Ogden Service Centers. Results have been successful in minimizing the number of reconsideration cases that meet PRP criteria. The project report and recommendations have been submitted to the NTA as a best practice and has been shared with all regions and service centers. The report is also under consideration by the National Audit Reconsideration Task Force. The Regional Taxpayer Advocate also performed a root-cause analysis of PSD audit reconsideration cases for the NTA. The report and recommendations have been sent to the NTA and are also a part of the National Audit Reconsideration Task Force.4. International made modifications to the Classification Handbook to expedite the processing of audit reconsideration cases	<ol style="list-style-type: none">2. Examination is confirming to taxpayers that correspondence is received.4. These changes were implemented on August 17, 1998. It is expected that the number of reconsiderations will decrease as a result of this action	<ol style="list-style-type: none">3. Issue the final report from the Audit Reconsideration Task force.4. These changes will be reviewed at the end of FY 1999 to gauge their effectiveness.

PROBLEM #19: AUDIT RECONSIDERATIONS/SFR

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>and to reduce the number of new cases. The dollar limit was raised from \$3,500 to \$5,000 for IMF cases.</p> <p>5. A task force studied the audit reconsideration process.</p>		<p>5. The task force recommendations will be evaluated and implemented. The systemic causes of audit reconsiderations will be addressed by:</p> <ul style="list-style-type: none">• Revising the statutory notice procedures;• Reducing delays in processing ASFRs at service centers, and• Shorten the period of time TA cases are in Examination Division.

PROBLEM 20: SUBSTITUTE FOR RETURN (SFR) ISSUES

Some taxpayers have reported delays in the processing of Automated Substitute for Returns (ASFRs) at the service centers.

RESPONSIBLE OFFICIAL: Chief Operations Officer

Discussion of Actions Taken During FY 1998 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1999 to Address Problem
<p>1. The Executive Officer for Customer Service Operations (EOSCO) staff worked with the NTA 's Office to determine the nature and severity of the problem. The problem has two facets:</p> <p>a. Joint returns filed under secondary TIN and</p> <p>b. Taxpayers file returns to correct ASFR assessments but these returns are not processed.</p>	<p>1.a. A RIS was prepared to ensure that a secondary TIN check is performed, eliminating the creation of a Taxpayer Delinquency Investigation (TDI) on the secondary TIN. Testing showed that IDRS changes resolved 90 percent of the processed cases. Master file changes will resolve the remainder in 1999. The implementation of the RIS will establish a filing requirement for both the primary and the secondary TIN. Therefore when a joint return is filed, the filing requirements for both parties will be satisfied and no TDIs will be created.</p> <p>b. Analysis revealed that many returns were misrouted in service centers. The problem was corrected by the CP-36C Process, which identifies these returns as ASFR cases and gets them routed to the ASFR unit for processing.</p>	<p>1. The RIS will be implemented in January 1999.</p>

THE MOST LITIGATED ISSUES

Section 1102(a) of RRA '98 amended the Internal Revenue Code to require a “full and substantive analysis” of the “10 most litigated issues for each category of taxpayer, including recommendations for mitigating such disputes...” in the National Taxpayer Advocate’s Annual Report to Congress. [New IRC section 7803(c)(2)(B)(ii)(X)]

The Office of the National Taxpayer Advocate (NTA) has not previously preformed any formal analysis of litigated tax issues. The IRS Office of the Chief Counsel provided a significant amount of the data presented in this study. Additionally, information for this analysis was obtained from a wide variety of sources, both public and private. This examination of the most litigated issues provided detailed insight into a number of major problems areas for taxpayers.

The categories of taxpayers used in this analysis are:

1. Individual (Wage and Investment),
2. Small Business (and Self-Employed/Supplemental Income),
3. Corporate (Middle Market/Large Corporation), and
4. Other (Tax Exempt, Estate & Gift).

These categories generally correspond to the four primary operating divisions that are envisioned under Commissioner Rossotti's modernization concept for the Internal Revenue Service: Wage and Investment, Small Business/Self-Employed/Supplemental Income, Middle Market/Large Corporation, and Tax Exempt. In order to show the widest variety of issues, this report combines tax-exempt issues with estate and gift tax issues for the “other” category. For simplicity, these categories are often referred in this report as (respectively): individual, small business, corporate, and other. As of the date of this report, many of the modernization issues remain to be settled. The following lists may differ in other respects from the final modernization concept . The use of other possible categories (for example: high, middle, and low income taxpayers) might provide a different view of the most litigated issues.

While this study provides information on the most litigated issues for four categories of taxpayers, the primary focus of the analysis in this year's report is placed on cases involving the first two categories; individual and small business. This was done for several reasons. First, the primary focuses of the Office of the National Taxpayer Advocate has always been in these areas. Secondly, initial research into the most litigated issues clearly indicated that a significant portion of taxpayers seeking relief through the courts were contesting these types of issues.

For purposes of this analysis, many of the listed “issues” correspond to a particular section of the code. This is particularly the case in the first category (individual). A notable exception is the issue of “penalties,” which cover a large number of code sections. Had this report broken-down the various penalties by code section, listing

them separately, a number of other issues would have been pushed-off the lists. Other “groupings” of issues, such as “collection issues” and “international issues,” were included to keep-together important categories of issues. It is recognized that listing issues by primarily by code section or the “judgmental” grouping of issues (such as with collection issues) structures the lists in what is only one of several ways of viewing “issues.”

One problem encountered in preparing this report was that there was little useful information published concerning which “issues” were litigated. Part of the problem was that there is a wide variety of ways of tracking issues. For example, one area within Counsel listed issues such as; merits issues, judicial procedure issues, collection issues, civil penalties, and examination procedures. Several of the lists provided by areas within Counsel included “substantiation issues” as a distinct issue. Substantiation of an item is an issue with many of the cases surveyed. Many of the substantiation issues for small business cases appear under the item "Schedule C income expense." However, viewing “substantiation” as a separate issue provides a significantly different - and no less valid - view of litigated “issues.” Another problem is that several of the existing record systems for court cases track the dollar volume of cases or track only high-dollar cases. Future reports may attempt to list litigated issues in ways that may provide differing views of the problems facing taxpayers.

Findings

The 10 most litigated issues for each of the four categories of taxpayer (wage and investment, small business/self-employed/supplemental income, middle market/large corporation, and other) were:

Individual (Wage and Investment)

- Penalty Issues (Multiple Code sections)
Primarily the accuracy-related and delinquency (IRC sections 6662 and 6651) penalties.
- Taxability of income
Often IRC section 61 disputes involving the taxability of income that was received. Award or disability pension issues. Personal injury awards (IRC section 104)
- Dependency exemptions (IRC section 152)
Often contentious divorced or separated taxpayers who are unable to agree.
- Earned Income Tax Credit - EITC (IRC section 32)
A large number of the cases result from the taxpayer’s misunderstanding of the complex EITC provisions
- Head of household filing status (IRC section 2)
As with EITC (IRC section 32) issues, these cases often resulted primarily from taxpayer misunderstanding of the rules.

- Jurisdictional issues
 - Last known address and late petition issues. RRA '98 section 3463 requires IRS to specify a deadline for filing a Tax Court petition in a notice of deficiency. This provision may reduce the number of these types of cases.
- Statute of limitations (IRC section 6501)
 - Fraud issues predominate.
- Theft/casualty losses (IRC section 165)
 - Primarily issues involving the facts of a specific loss and the taxpayer's ability to establish entitlement to a deductible loss.
- Collection Issues
 - Primarily liens (IRC sections 6321-6327) and levies (IRC sections 6331-6344)
- Attorneys fees (IRC section 7430)
 - Several recent provisions have addressed this area. A larger number of taxpayers will be able to receive awards for attorneys fees. However, this may (or may not) increase the amount of litigation in this area.

Small Business (and Self-Employed/Supplemental Income)

- Penalty Issues (Multiple Code sections)
 - Primarily Failure to Collect & Pay Over Tax... (IRC section 6672) Trust Fund Recovery Penalty (100% penalty). Also negligence, failure to file, and fraud issues
- Deductibility of trade or business expenses (IRC section 162)
 - This encompasses a wide range of business expense issues. Primarily two issues: personal expense v. trade or business expense and determination if an item is subject to the 2 percent limitation on Form 1040, Schedule A
- Schedule C income/expenses (multiple code sections)
 - Primarily substantiation issues.
- Hobby losses (IRC section 183)
 - Often determination of fact or the intention of the taxpayer to engaged in a particular activity for profit
- Self-employment tax (IRC section 1401)
 - Issues concerning the nature of a particular payment. Often related to whether an individual was an employee or an independent contractor. Several cases involve ministers.
- Employee v. independent contractor (IRC section 3401)
 - These involve cases brought by both employers and employees concerning, primarily, if an individual was an employee of a particular business.
- Valuation Issues
 - Closely held corporations/family limited partnerships/special use valuations/reasonable compensation/estate and gift issues
- Collection Issues (various code sections)
 - Primarily liens (IRC sections 6321-6327) and levies (IRC sections 6331-6344)
- Expenses for production of income (IRC section 212)

- Cases involved a wide range of issues regarding deductibility of an item under IRC section 212 v. 162. Several cases involve deductibility of legal expenses.
- Determination of amount of gain or loss (IRC section 1001)
Primarily substantiation and basis issues

Corporate (Middle Market/Large Corporate)

- Capitalization Issues
Including environmental remediation and loan origination cost issues
- Accounting Issues
Inventory and economic performance, etc.
- Research Credit (IRC section 41)
- Depreciation and Depletion Issues
- Investment Tax Credit (IRC sections 46 - 50)
Primarily the transition rules
- Net Operating Loss (IRC section 172)
Ten-year carryback issues
- Gains and Losses
Property used in trade or business and involuntary conversions (IRC section 1231)
- Insurance Issues
Corporate-owned life insurance and captive insurance
- Debt v. Equity Issues
- Foreign Tax Issues (various Code sections)
Foreign tax credit (IRC sections 901-905), Allocation issues (IRC section 482, Sources of income (IRC sections 861-865), etc.

Other (Tax Exempt, Estate & Gift, etc.)

- Statute of limitations (IRC section 6501)
- Valuation Issues
Estate tax issues
- Qualified plan distributions under IRC section 72
- Prohibited Transactions (IRC section 503)
- Unrelated Business Income (IRC section 511)
- Bankruptcy
Qualified plans
- Gross Estate (IRC sections 2031 - 2046)
- Taxable Estate (IRC sections 2051 - 2056)
- Gift Tax Determination of Liability (IRC sections 2511 and 2512)
Transfers and valuation
- Generation-Skipping Transfers (IRC sections 2601-2604)

In several cases, a particular issue could be viewed as impacting more than one

category of taxpayer. In most cases, this report lists an issue under only one category. An example of the situation are the related issues of the deductibility of trade or business expenses under IRC sections 162 or 212. These cases often involve a determination of personal expense v. trade or business expense and if an item is subject to the two percent limitation on Form 1040, Schedule A. Another example is the issue of employee v. independent contractor (IRC Section 3401). Rather than list these issue as both individual and small business issues, these issues generally are listed under only one category (in both of these cases, small business). Penalty issues, however, appear in more that one category due chiefly to the variety of penalty issues that were litigated.

Methodology

As mentioned earlier, the primary focus of the analysis in this year's report is placed on cases involving individual income tax and small business issues. Information for this analysis was obtained from a wide variety of sources, including the Department of Justice and a number of areas within the Office of the Chief Counsel. Also, a great deal of information was obtained from outside tax, professional, and academic organizations. The data for individual issues was obtained from a relatively large sample size of court cases reviewed. The anecdotal information that was provided showed a significant amount of duplication of issues, with various sources reporting the same (or similar) issues as being among the "most litigated." For this reason, the issues for individuals are presented with a high degree of confidence. This "primary" analysis was performed by the Office of the Chief Counsel and examined a sample of the large number of Summary (or "S" case) and Memorandum (TCM) opinions (see below). The individual issues presented in the above list are set forth with only minor modification and addition from this analysis reported by Counsel. The anecdotal data received from other sources closely mirrored the results of the "primary" analysis and, in large measure, serves to validate that data.

The list of small business issues in this analysis represents a combination of data from the "primary" analysis and anecdotal data from other sources. While this relatively unscientific method may leave something to be desired, the anecdotal information received from both governmental sources and outside organizations consistently listed many of the same (or similar) issues as among the most litigated. Because of the near unanimous reporting of these issues, this list is also presented with a high degree of confidence.

The issues listed for the middle market\large corporation and the other sectors are based primarily on anecdotal information and "from-our-experience" lists provided by a wide variety of sources (both governmental and private). However, many of the issues listed were reported by multiple sources, with a number issues being reported in much the same order. While the data for the middle market\large corporation and the other sectors is nothing close to being statistically valid, the issues listed appear to represent

a good sense of the problems facing taxpayers in these market segments. Future reports may refine the analysis of these two categories. However, the lists presented here are very likely to provide the most significant items, at least for the top issues listed for these two categories.

Several areas of litigation were not included in the above analysis (or were only partially included). Criminal tax cases, while a significant issue in themselves, generally were not included. However, a number of fraud issues are identified in this analysis - many as statute of limitation (IRC section 6501) issues. Data provided by Chief Counsel showed approximately 1400 indictment brought under the provisions of the Code (Title 26). These included false return evasion, evasion, conspiracy to defraud, failure to file, and false claims issues. Judicial procedure issues (IRC sections 7451 - 7465) were present in many cases, but generally are not included in this analysis. Tax-shelter cases were not reviewed for this study. The majority of shelter cases resulted from issues under prior law and were not viewed as appropriate for this analysis. Other issues excluded from this analysis include excise tax and freedom of information act (FOIA) issues. Also, while not appearing in the primary analysis, innocent spouse (IRC Section 6013) issues were reported by a number of sources as being among the major litigated issues. However, because RRA '98 made significant changes to this area, innocent spouse issues were not included.

Many times, a particular court case deals with more than one issue and involves several code sections. For example, a court case could easily involve trade or business expense issues (under IRC section 162), expenses for production of income (IRC section 212), and a penalty issue under one of the penalty sections. Cases may involve several different types of penalties including, for example, the delinquency penalty (IRC section 6651), the accuracy-related penalty (IRC section 6662), and the failure to pay estimated tax penalty (IRC section 6654). Also, the dependency exemption issue is commonly litigated in cases that also involve the earned income credit and/or head of household filing status. The data obtained for this study was generally taken from the "primary" issue in a case. As a result, the "secondary" issues may not be fully represented in this analysis.

Primary Analysis

The Office of the Chief Counsel reviewed a sample of Summary ("S" Case) opinions for January-September, 1998 (179 cases) and Memorandum (TCM) opinions for May-August, 1998 (156 cases). Also reviewed were 106 district court and U.S. Court of Federal Claims opinions for June, July, and part of August, 1998. These reviews were performed manually. It was felt that the time periods and number of cases reviewed were more than adequate to obtain a realistic sample for this study. However, no attempt was made to determine if this sample was "statistically valid." Chief Counsel did not review the full "TC" opinions for this study. However, much of the anecdotal data involved "TC" opinions. These "TC" opinions may be reviewed more fully for a

future report.

RRA '98, Section 1102(a), called for a "full and substantive analysis" of the "10 most litigated issues." For several reasons, it was decided to examine decided cases - rather than attempt to analyze cases that were "litigated," but not decided. Analysis of these cases would certainly have been significantly more time consuming. Since RRA '98 (and the provision requiring this study of litigated issues) was passed into law in July, 1998, time was seriously limited. However, more importantly, very little hard data exists on the types of cases that are being litigated, whereas far more information is available on decided cases. Additionally, it was felt (although this has not been verified) that excluding cases that were settled before or during trial would eliminate a large number of "nuisance" cases or cases that lacked merit - either on the part of the taxpayer or the part of the government.

Summary opinions and Memorandum opinions were chosen primarily for two reasons. First, due to the volume of cases, these types of court cases represented a very large percentage of the cases brought before the Tax Court. Including other types of cases was seen as being unlikely to significantly alter the analysis. Secondly, it was felt (at least early in the analysis) that a review of other cases would introduce a variety of complex, corporate, insurance, and banking issues that, while important in themselves, would prove to be beyond the scope of the "primary" focus of this year's study.

Tax Court

Cases were categorized the into three groups: individual, corporate, or other. The "other" category encompassed a variety of issues, including: estates, TEFRA entities, and transferees. All but one of the Summary ("S") cases involved individuals. (The one case that was the exception involved both an individual's and a corporation's respective income tax liabilities.) The TCM cases involved the following types of taxpayers:

Individual & Small Business	123
Corporate	18
Other	<u>15</u>
	156

The most litigated issues in these Tax Court cases for *individuals and small businesses* were as follows:

<u>Issue</u>	<u>"S" Cases*</u>	<u>TCM*</u>
All penalties (broken down below) ⁶⁷	153	
Taxability of income	35	16
Dependency exemptions	24	-
Deductibility of trade or		

business expenses	24	17
Earned income credit	20	-
Schedule C income/expenses	19	-
Head of household filing status	16	-
Jurisdictional issues	-	15
Statute of limitations	-	9
Hobby losses	14	8
Self-employment tax	12	-
Employee v. independent contractor	8	-
Theft/casualty losses	-	7
Expenses for production of income	-	7
Attorneys fees	-	5
Determination of gain or loss	-	5

The break down of penalty issues for these cases is as follows:

<u>Type of Penalty</u>	<u>"S" Cases</u>	<u>TCM</u>
Accuracy-related (Section 6662)	45	51
Delinquency (Section 6651)	13	47
Negligence (Section 6653)**	2	15
Failure to pay estimated tax (Section 6654)	5	21
Substantial understatement (Section 6661)**	-	9
Fraud penalty (Section 6663)	2	8
Sanctions and costs awarded by courts (Section 6673) **	-	10

**Former law provisions. These penalties are now part of the accuracy-related penalty provision.

Note that the number of "corporate" (18) and "other" (15) cases in this sample was too small for any statistically significant data to be developed for issues other than those impacting individual taxpayers. However, much of this data corresponds to the anecdotal information provided by other sources. Also, it should be noted that many of these "individual" returns were Schedule C businesses.

District Court and U.S. Court of Federal Claims

Methodology: Chief Counsel reviewed 106 district court and U.S. Court of Federal Claims opinions reported in the advance sheets for the 98-2 volume of United States Tax Cases (U.S.T.C.) for June, July, and part of August, 1998. These cases fell into the following categories:

Individual & Small Business	86
Corporate	18

Other 2
106

The top litigated issues in these cases fall into two broad categories, namely, jurisdictional issues (sections 7402, 7421, 7422) and collection issues (sections 6321, 6332, 7403, 7433). The break down of these issues by category of case is as follows:

<u>Category</u>	<u>Jurisdictional</u>	<u>Collection</u>
Individual & Small Business	37	20
Corporate/Other	6	8

The remainder of the issues litigated in these cases is too widely varied to categorize.

Recommendations for Mitigating Disputes

Many of these issues have been debated over the years. The earned income tax credit has been discussed and reviewed many times. Much time and energy has gone into the issue of penalties. Many suggestions have been made to refine the distinction between employees and independent contractor. While this latter area is extremely complex, a more definitive method of determining who is, in fact, an employee could reduce the amount of litigation in this area. However, a more rigid definition of “employee” could significantly reduce the current flexibility that employers and employees have in this area and might negatively impact the taxpaying public. Also, this is a much-debated matter of public policy and is probably beyond the scope of this study.

Several of the issues listed in the “most litigated” have been addressed in recent legislation and may be less of a problem in the future. Payment of attorney fees by the government has been included in several recent laws. Time will tell if these provisions reduce the involvement of the court in this area. It is possible that the greater availability of payment for attorney fees will increase, rather than decrease, the litigation in this area. Also, it is important to note that several of the penalties that are included in the list (the substantial understatement penalty under IRC Section 6661 and the sanctions and costs awarded by courts under IRC Section 6673) are now part of the accuracy-related penalty provisions. This may, or may not, decrease litigation in the penalty area.

Several of the issues identified as the “most litigated issues” are addressed in other sections of this report. A number of the legislative proposals that are made in this report specifically address the issues listed as the top 10 most litigated issues for each category of taxpayer.

Penalties

Simplify the Computation and Assessment of the Estimated Tax Penalty-
Eliminate the Estimated Tax Penalty and Have Interest Automatically Assorted
[IRC section 6654] - Legislative proposal #12

Apply Compound Interest Based Only on the Underlying Tax Interest should not
be charged on penalties or other additions to tax. [IRC section 6622(b)] -
Legislative proposal #9

Eliminate the Failure to Pay Penalty [IRC section 6651] - Legislative proposal
#13

Amend IRC section 6651 to Waive Failure to Pay (FTP) Penalty When an
Approved Installment Agreement Is in Effect. - Legislative proposal #33

Amend IRC section 6702 (Frivolous Income Tax Return) to permit reasonable
cause penalty relief in appropriate cases. - Legislative proposal # 34

Change the Refund Statute Laws to allow refunds of all money paid to the IRS if
the Trust Fund Recovery Penalty assessment is later determined to be invalid.
[IRC section 6511(a)] - Legislative proposal #28

Earned Income Tax Credit

Simplify the Definition of Qualifying Child for the EITC [IRC section 32(c)(3)] -
Legislative proposal #1

Amend Code section 32(c)(1)(C) to permit the EITC to taxpayers who reside with
other eligible adults - Legislative proposal #21

Eliminate the Age Requirement for Taxpayers to Qualify for the EITC [IRC
section 32(c)(1)(A)(II)] - Legislative proposal # 22

Exempt the Earned Income Tax Credit (EITC) from Offsetting to Federal Tax and
Debtor Master File (DMF) Liabilities [IRC section 6402(a)] - Legislative proposal
#38

Deductibility of trade or business expenses

Amend Deduction for Reimbursed Employee Business Expenses [IRC section
62(a)(2)] - Legislative proposal #2

Head of Household

Redefine “Household” for Head of Household Filing Status [IRC section 2 (b)] - Legislative proposal # 30

Collection Issues

Accept Telephonic Agreement to Close Cases with Assessments Under \$1,500 [IRC sections 6213(a) and (b)(4)] - Legislative proposal #19

Repeal IRC section 6404(b), No Claim for Abatement of Income, Estate, and Gift Taxes - Legislative proposal #31

Allow Taxpayers to Get a Return of Levied Property During the Two-Year Period From the Date of the Levy [IRC section 6343(d)] - Legislative proposal #32

Expand the Statute Expiration Date When the Delay Was Caused by Another Government Agency [IRC sections 6511 and 6514(a)] - Legislative proposal #35

Allow for Refunds to Bypass Offsets to Other IRS Liabilities in Hardship Situations [IRC section 6402(a)] - Legislative proposal # 36

Allow for Refunds to Bypass Offsets to Debts to Other Government Agencies in Hardship Situations [IRC sections 6402(c) and (d)] - Legislative proposal # 37

It is interesting, but not surprising, to note that many of the issues listed as being among the most litigated correspond to items reported as being among the 20 most serious problems facing taxpayers elsewhere in this report. “Penalty administration” and “administration of earned income credit,” which both appear under the individual list, and a number of collection issues, which show-up on the small business list, appear on the list of 20 problems. A number the other 20 most serious problems closely correspond to issues on this list of most litigated issues. Maintaining taxpayer’s current address is one of the primary causes in the jurisdictional issues (on the individual list). Also, “complexity of the tax law” is listed as the single most serious problem faced by taxpayers.

Also, the prior year’s Taxpayer Advocate Report to Congress also contained several legislative recommendations relevant to the issues in this “most litigated” list.

Conclusions

Penalty issues appear as the first issue on both the Wage and Investment list and on the Small Business/Self Employment/Supplemental Income list. This clearly indicates that this issue is a major source of burden to taxpayers who are litigating tax matters. This really comes as no surprise. Penalty issues have long been seen as a significant problem. Penalty issues are identified elsewhere in this report as one of the 20 most

significant problems facing taxpayers. Penalty issues are also listed (as measured by the PRP Major Issue codes reported elsewhere in this report) to be one of the primary sources of PRP casework. While a great deal of work has gone into the problems caused by penalties, much remains to be done.

A particularly disturbing issue on the individual list is the Earned Income Tax Credit (EITC). The fact that an area of law that is aimed at assisting low-income individuals, such as EITC, appears on a list of most litigated issues is an indictment of the complexity of this area. The significant amount of effort that is expended to enforce the EITC rules and the degree of fraud uncovered have been examined in great detail elsewhere. The Earned Income Tax Credit should be simplified

Several of the issues listed in this analysis have been addressed by provisions of recent tax legislation, primarily RRA '98, and may be less of a problem in future years. However, any new legislation opens up the possibility for a greater amount of litigation.

As stated before, the analysis of the most litigated issues in this year's report focused primarily on individual and small business taxpayers. It is safe to say that this analysis raises more questions than it answers. The above findings and recommendations are best viewed as a "work-in-progress." A list of the most litigated issues provides, at best, only a starting point for a thorough analysis of the issues that are causing burden for taxpayers. Significant questions remain to be answered. We intend to address many of these issues in future reports.

AREAS OF THE TAX LAW THAT IMPOSE SIGNIFICANT COMPLIANCE BURDEN ON TAXPAYERS OR THE INTERNAL REVENUE SERVICE

RRA '98 added the following requirement, IRC section 7803 (c)(2)(B)(ii)(IX):

“identify areas of the tax law that impose significant compliance burdens on taxpayers or the Internal Revenue Service, including specific recommendations for remedying these problems.”

For this purpose compliance burden means: Any requirement imposed on taxpayers or the IRS related to the filing of a tax return, the examination of a tax return, the payment of tax or subsequent collection action or an appeal of a tax. Additionally, any tax law (including processes required by the tax law) that makes compliance by taxpayers and administration by the IRS overly difficult due to complexity is a compliance burden.

From taxpayers' point of view significant compliance burdens exist concerning:

- ▶ Complexity
- ▶ Ease of access to the IRS
- ▶ Understanding requirements and procedures

The NTA's goal, as it relates to significant compliance burden, is to:

- ▶ Simplify procedures and processes to help reduce taxpayer burden and
- ▶ Apply the tax law and internal procedures equitably.

During FY 1998, the NTA's office recommended administrative changes that support this goal. These recommendations are contained in the Advocacy Activities section of this report.

The following Legislative Proposals would reduce compliance burden. They are also included in detail in the Legislative Proposals section of this report.

1. **Simplify the Definition of Qualifying Child for the EITC [IRC section 32(c)(3)]**
Conform the definition of qualifying child more closely to the rules for dependency exemptions [IRC section 151(c) (3)]. Having two different definitions for eligible children under IRC sections 32 and 151 makes the Code unnecessarily complex. Taxpayers can easily be confused by the different tests used in section 32 for a “qualifying child” and the tests used in section 151 for a “dependent child.” The Code should adopt a uniform definition of eligible children.
2. **Amend Deduction for Reimbursed Employee Business Expenses [IRC section 62(a)(2)]**

Allow employee business expenses greater than employer reimbursement to be reported as a deduction from gross income instead of as a Miscellaneous Deduction (subject to the 2% of Adjusted Gross Income (AGI) threshold) on Schedule A. Current treatment of employee business expenses is inequitable to taxpayers who do not itemize deductions.

3. **Simplify Education Loan Interest Deductions**

Replace the 60-month limit with a lifetime dollar limit and simplify the rules for documenting education interest deductions.

4. **Simplify Computations of Deductible Interest for Home Refinancing**

Allow deductions for all refinancing mortgage points for personal residences in the year paid. Simplify rules, which link the deductibility of interest on loans for original purchase, refinance, or home equity to the current fair market value of the home. Provide purchase safe-harbors and simple conversion tables.

5. **Simplify Deductions Used on Residential Rentals**

Change IRC section 179 to permit full deductions in the year the expense occurs for personal property (carpeting, refrigerators, washers, etc.) purchased and used in connection with residential rentals. A change to IRC section 179 will result in simplification and increased compliance. This common error and misclassification are normally uncovered during an audit. This burdens the taxpayer with interest and possible penalties when the correct procedure is not followed.

6. **Allow Section 179 Expense to Be Claimed in Whatever Year the Taxpayer Elects to Do So**

A taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to capital account. Any section 179 property cost shall be allowed as a deduction for the taxable year in which the section 179 property is placed in service. Taxpayers may not be able to receive the benefit of the Section 179 expense for the year of purchase. They should not be denied this deduction.

7. **Simplify the Purchase of non Customized Software, up to Specified Dollar Limits, by Allowing a Full Deduction in the Year of Purchase**

Amend IRC section 167(f) and include computer software in IRC section 179(d)(1) as Section 179 Property to allow the direct deduction in the year of purchase of non-customized computer software up to a specified dollar limit.

8. **Exclude from Income All Funds Received at the End of the Year When Those**

Funds must Be Repaid Early in the Succeeding Year

Taxpayers should be permitted to exclude certain amounts for income received within 30 days of the close of the taxable year that must be repaid in the following year.

9. Compound Interest Based on the Underlying Tax Only

Interest should not be charged on penalties or other additions to tax. This is more in line with the manner that interest is charged by financial institutions in the private sector.

10. Limit the Total Amount of Interest That Can Accumulate on a Liability to 200% of the Underlying Tax Liability

This is similar to the way some penalties are structured with certain percentage caps. For example, Late Filing Penalties are currently limited to 25% of the underlying tax liability.

11. Consider the Postmark Date the Filing Date for All Returns [IRC section 7502]

Allow the postmark to be considered the filing date for all documents filed with the IRS. The postmark date would not govern payments mailed after the due date of a return.

12. Simplify the Computation and Assessment of the Estimated Tax Penalty-Eliminate the Estimated Tax Penalty and Have Interest Automatically Asserted [IRC section 6654]

The current rules regarding penalty for underpayment of estimated tax per IRC section 6654 are extraordinarily complex for taxpayers and very difficult for the IRS to administer. The exceptions to this penalty, for which many taxpayers qualify, are difficult to compute and are the source of additional frustration for taxpayers.

13. Eliminate the Failure to Pay Penalty

This penalty has served its useful purpose. Since 1983, when the IRS began compounding interest at market rates, this penalty has become an onerous burden on taxpayers.

14. Require Rounding of Cents to Dollars on Returns and Other Documents [IRC section 6102]

Currently, taxpayers are allowed to choose to round to the nearest whole dollar or

to include the exact cents on paper returns. This is a source burden and confusion for taxpayers. The added complexity of using cents in the many required mathematical calculations increases taxpayer and IRS errors. These errors result in many IRS notices to taxpayers. This proposal would conform the requirements for paper returns with the practice used with electronic filing, which requires rounding.

15. Repeal the Information Reporting Requirements Imposed on Colleges by the New Education Credits Enacted by the Tax Reform Act (TRA) 1997

The new law requires colleges to collect information that will be of little or no use to the IRS, the college, or the taxpayer (parent or student). Colleges must also file information documents with taxpayers and the Service reporting the amount of tuition paid. This places a large burden on colleges and gives taxpayers a new document that will be of little use to taxpayers claiming the credit and no use to the large number of taxpayers not taking the credit.

16. Allow Taxpayers to Report Capital Gains from Mutual Funds Without Having to Complete a Schedule D [IRC section 1(h)]

The tax computation on Schedule D, created because of the change in law, is extremely difficult for taxpayers. Many small investors prepare their own tax returns and are left to struggle with the complex calculations. The requirement that these gains be reported on Schedule D has resulted in a sharp increase in taxpayer burden.

17. Extend Disclosure Authority for Suicide Threats to Local Enforcement Agencies [IRC section 6103]

Amend IRC section 6103(i)(3)(B) to allow the IRS to contact and provide certain information to local law enforcement authorities in cases of suicide threats. Currently, the Service may only contact federal and state law enforcement agencies.

18. Amend IRC section 6103(e)(8), Disclosure of Collection Activities With Respect to Joint Return, and TBOR2 to honor oral requests from a former spouse or authorized representative for disclosure of joint return collection activities

This will eliminate the discrepancy between IRC section 6403(e)(7), Return Information and IRC section 6103(e)(8). Under the current law, if a former spouse requests disclosure of collection activities with respect to a joint return and cites IRC section 6103(e)(8) or TBOR II, the request must be in writing, and it excludes an authorized representative from obtaining the information. This is in complete contradiction of IRC section 6103(e)(7), Return Information that allows the information to be open to any person authorized to receive it. A verbal request is

sufficient to obtain the information under section 6103(e)(7).

19. **Accept Telephonic Agreements to Close Cases with Assessments Under \$1,500 [IRC sections 6213(a) and (b)(4)]**

Amend IRC section 6213 to allow the taxpayer the option of a telephonic waiver of restriction (agreement to additional assessments) in those cases where the deficiency (not including penalty and interest) does not exceed \$1,500. Implementation of this change would reduce taxpayer burden by: eliminating an additional taxpayer contact by the IRS to secure formal signatures and reducing the time to close a case, thereby minimizing interest that would accrue. In addition, this change would increase administrative efficiency and result in a cost savings to the service centers.

20. **Allow IRS To Use Electronic Means To Notify Taxpayers That Their Refunds Have Been Returned As Undeliverable**

Amend Internal Revenue Code section 6103(m)(1) to extend disclosure of undeliverable refund information by the IRS directly to the public via the Internet without being limited to newspapers and other public announcements.

TAXPAYER ADVOCATE ACTIONS

ADVOCACY ACTIVITIES

Headquarters Advocacy Initiatives

The 1996 TBOR 2 legislation broadened awareness of and increased activity in the arena of promoting taxpayer advocacy initiatives. The Restructuring and Reform Act of 1998 (RRA '98) has added emphasis to ensuring that advocacy efforts for promoting taxpayer fairness and equity are strengthened. The NTA's Headquarters staff has been very active in initiating advocacy projects and strategies, supporting field advocacy efforts, responding to taxpayer inquiries, and providing ongoing participation in the development of new corporate processes and procedures. While the majority of problems faced by taxpayers can be corrected through administrative changes and proposals for procedural work improvements, legislative alternatives also are being explored and recommended as appropriate solutions.

The following summary presents a partial listing of the wide range of issues and activities in which the NTA's office was involved in during FY 1998:

Procedural Initiatives

Notice Redesign Project - This project represents a wide-ranging collaborative venture between The Writing Company (TWC) based in St. Louis, MO and the IRS. TWC is charged with redesigning and rewriting over 100 IRS notices and developing 11 prototypes. All of the preceding are high-volume notices to be implemented during the 1999 tax season. The focus of our efforts is to improve customer service by having notices that are easy to read and understand from a taxpayer's perspective, give taxpayers the information they need, and make them aware of their rights.

Backup Withholding - Worked with the business owner of the Backup Withholding (BWH) Program (in the Customer Service Organization) and the Information Systems programmer to identify the reasons why the Integrated Data Retrieval System (IDRS) indicator does not update to "satisfied BWH" status when a manual stop of BWH is input using Form 8408. This problem has primarily caused the service centers in Northeast Region to have a number of overage cases. As a result of our review, instructions to the field (Internal Revenue Manual 21.9.3) and Form 8408 will be revised to include the needed override criteria.

Dyed Diesel Fuel Penalty Appeal - Represented the NTA in a group which included Appeals, Counsel and Examination that met several times to draft a revenue procedure that would allow a preassessed administrative appeal of the IRC section 6715 penalty. The revenue procedure was issued in October 1998.

Differences in the Computation of Interest - Discussions were held with Appeals and a meeting between the NTA's representative, Customer Service and Examination was requested regarding two situations where there were differences in the computation of interest by the functions. One difference was the result of a Counsel opinion regarding the application of an overpayment for one year to a balance due for another year when there was an advanced payment of a deficiency. The other involved a computer programming problem with the computation of interest on an overpayment of more than \$10,000 (GATT Provision) on a corporate return. An agreement was reached and a memorandum was issued by the management of the three functions to implement the method mandated by Counsel. A Significant Service Center Advice was released to the public on this issue. By January 1999, the programming problem with interest on the corporate overpayments will be resolved with a computer change request.

Revised Installment Agreement Procedures and Collection Statute Recovery Program

- As the result of a request for a Counsel opinion by the Taxpayer Advocate in the Pacific Northwest, it was determined that we incorrectly handled some installment agreements where the agreement would not full pay the balance owed by the statute expiration date. Revised installment agreement procedures were issued with input from the NTA. A recovery program was initiated for those installment agreements where the taxpayer was asked to sign a waiver incorrectly or if the taxpayer did not sign the waiver, where we may have defaulted the installment agreement and taken enforcement action. Extracts of the database identified a population of taxpayers that had the potential to be included in the recovery program. Letters to the relevant taxpayers signed by the NTA were issued. The NTA has been monitoring the recovery process which should be completed by the end of October 1999.

Implementation of Erroneous Refund Procedures Working Group - A Counsel advisory that the Department of Justice will no longer pursue administrative collections unless the case involves a computation of tax, resulted in the limitation of IRS' ability to collect non-rebate erroneous refunds. Ability to collect is limited to the two year Erroneous Refund Statute Expiration Date, if the erroneous refund was caused by IRS or five years if the taxpayer caused the error. A Non-Rebate Erroneous Refunds Task Force was established to address the needed changes to procedures for this category of refund. The working group is charged with ensuring that the recommendations made by the task force are implemented by the January 1999 target date. These recommendations include training, changes to computer programs and changes to the Internal Revenue Manual instructions.

Due Process in IRS Collection Actions Working Group - This group was formed to help coordinate the various parts of section 3401 of RRA '98 and to assist Counsel with the drafting of regulations. The most significant provisions of this section include the requirement to allow an administrative appeal and the ability to petition the courts for lien, levy and seizure actions. The most difficult provision to implement is the requirement that notices of levy be sent out by certified mail, return receipt requested.

Audit Reconsideration Procedures Working Group - The TA for Service Center Operations chaired an Audit Reconsideration Task Group with support from the NTA staff as well as Compliance and Customer Service. The group was charged with:

- Identifying root causes of reconsiderations resulting from Statutory Notices of Deficiency and
- Recommending strategies to reduce the need for reconsiderations.

The Group recommended:

- Improving efforts to locate taxpayers before assessment
- Improving efforts to encourage taxpayers to notify the IRS of their change of address
- Developing and implementing a reconsideration MIS to capture data on all reconsiderations
- Implementing nationally certain features of Western Region's centralized reconsideration process
- Revising, as appropriate, IR Manual Supplement MS-41G-154, Reconsideration of Deficiency Assessments
- Incorporating reconsideration training into core training for all taxpayer contact employees.

Children Who Were Born and Died in the Same Year and the Earned Income Tax Credit - During the 1998 filing season, the NTA's office was contacted by the Submission Processing Division regarding a processing problem they were having. When children are born and die after a few days, some states do not issue birth and/or death certificates. Affected taxpayers did not have the documentation they needed to attach to their return as required by the forms and publications when claiming these children as dependents. Taxpayers were receiving consistent treatment from the IRS and were not being allowed to claim the Earned Income Tax Credit. With the NTA's involvement, the IRS permitted taxpayers to provide various alternative forms of documentation in lieu of a birth or death certificate. Additionally, the NTA's staff was instrumental in the IRS decision to allow taxpayers to claim the EITC for these children even though the taxpayer does not have a Social Security Number for the child.

IRS Restructuring and Reform Act of 1998 (Public Law 105-206) - This sweeping new law has significant impact on the Office of the NTA and the Problem Resolution Program. Because a large number of the Act's provisions concern taxpayer rights issues, Headquarters, Regional, and Local Advocates and their staffs worked closely with IRS functions to ensure timely implementation of the many provisions. The NTA is represented on the implementation group formed to ensure that timely actions are taken to comply with the many provisions of this Act.

Taxpayer Advocate Directives (TADs) - The Commissioner authorized the NTA to issue TADs. These directives, formally announced by Delegation Order 250, effective March 17, 1998, enable the NTA to direct specific actions on the part of the IRS when the NTA believes it is necessary to protect the rights of taxpayers, prevent undue burden, or ensure

equitable treatment. If a functional area disagrees with a directive, the only avenue of appeal is through the Deputy Commissioner. TADs provide the NTA with the authority to provide relief to groups of taxpayers (or all taxpayers) similar to the authority (provided by IRC section 7811) to issue TAOs to grant relief to individual taxpayers

Innocent Spouse - Following the enactment of RRA '98, the NTA interceded with the Chief Operations Officer to change claim procedures to be more taxpayer-friendly for equitable relief under IRC section 6015(f). The procedures now allow taxpayer claims, and suspended cases until the substantive procedures (issued December 1998) were prescribed so that the denied cases may also receive section 6015(f) relief consideration.

SBREFA Procedures- Developed and published the procedures for working taxpayer cases involving the Small Business Regulatory Enforcement Fairness Act.

Other Advocacy Efforts

Tax Forms Coordinating Committee (TFCC) - The NTA representative participated on this Service wide group that reviews all new and revised tax forms. Due to the implementation of RRA '98 and the Taxpayer Relief Act of 1997, this was an especially active year for the TFCC. A large number of issues involving taxpayer rights and burden were involved in the many changes to Form 1040 and related schedules, as well as to the new or substantially modified forms for the Child Tax Credit, Innocent Spouse relief, and the Education credits.

National Resource Center (NRC) - Participated on this National Office effort to provide timely and accurate answers to questions from field employees about RRA '98.

Filing Season Readiness Committee - Participated on the steering committee that is preparing for the 1999 filing season by assessing the organization's planning process and field readiness to handle return processing and provide answers to taxpayers' tax law and account inquiries.

Administrative Initiatives

Interactive Video Conference/Training - Conducted a nationwide video broadcast to the Problem Resolution Program staff focusing on the RRA '98 provisions with discussion of the portions of the legislation that have impact on the program and plans for implementation of direct reporting.

National Taxpayer Advocate Continuing Professional Education (CPE) - Conducted a three-day training session (in Cincinnati, OH from Sept. 15 - 17, 1998) for taxpayer advocates nationwide. Representatives from the NTA's Staff, Chief Counsel, Legislative Affairs, Internal Security, Information Systems, Customer Service, Collection, and Taxpayer Treatment and Service Improvement provided information on

relevant provisions of RRA '98 or gave updates on plans for FY 1999. This information will enable the advocates to be more well informed in their day-to-day dealings with taxpayers.

Problem Resolution Coordinator Meetings - Continued a series of meetings with National Office functional representatives. Meetings have focused on the changing role of the NTA and his staff, the implications of TBOR2, RRA '98, and enhancing effective working relationships to improve service to taxpayers.

Taxpayer Advocate Training Course Development - Finalized the draft course material for the pilot of the new Taxpayer Advocate/Associate Taxpayer Advocate Training. The training course developed by the NTA's Training Assessment and Development Task Force in partnership with Corporate Education's Leadership Institute was piloted in Atlanta, GA. The course and Instructor panel received very good reviews from participants. The course, officially named *Functional Training for Taxpayer Advocates*, will receive a final revision covering pilot feedback.

Personnel Action - To met the goal of providing career ladder opportunities within the PRP function, developed position descriptions for grade 14 Program Analysts for Regional TA staffs and grade 11 District Office Liaisons for Service Center TA staffs that were approved and implemented.

Communication Actions - Worked with Electronic Information Services to expand the Intra/internet NTA's home page. Advocacy initiatives and legislative recommendations were among the items added to the electronic information now available on the home page.

PROMIS Training - Developed a computer-based on line help system for PROMIS. This will enhance employee skills and enable them to respond to taxpayer inquiries more expeditiously.

Field Advocacy Council Activities

The four regional offices and the Executive Officer for Service Center Operations (EOSCO) have an established advocacy councils that serves as a steering committee for field advocacy efforts.

The goals of the advocacy councils are 1) to identify issues and processes involving significant taxpayer burden issues and their underlying causes and 2) recommend solutions to improve taxpayer service and IRS responsiveness. The advocacy councils are multi-functional and include executive participation and oversight. They allow regional offices to partner with field offices to improve district and service center processes. Project results and recommendations that require national coordination for implementation are forwarded to the NTA for implementation consideration.

In FY 1998, the advocacy councils instituted a number of projects initially resulting from major issue code (MIC) analysis. The Problem Solving Days initiative provided a major source of data that the councils used to identify issues for advocacy efforts. Some of the projects have been finished and others will continue into FY 1999. The key projects and recommendations are:

Lost and Misapplied Payments

This project resulted in recommendations involving educating the public regarding payment procedures by increasing visibility of payment instructions on tax forms, envelopes, and notices. Three recommendations were incorporated into the 1998 tax packages.

Trust Fund Recovery

This project was initiated to review the existing procedures for making trust fund assessments against individual taxpayers. Process are being examined to make a determination of the clarity and timeliness of the process.

Toll-Free Access and Demand

This project addressed problems that taxpayers experience when trying to reach the IRS by telephone. The overall goal of the project was to increase the level of access. The objectives were to (1) complete analysis that will identify trends in calling patterns and alternative types of assistance, (2) determine advantages of calls for both the taxpayer and the Service, and (3) identify potential telephone service inadequacies. Focus groups with taxpayers were conducted, issues were analyzed against volume reports by period, and recommendations tested. Recommendations were submitted, to the functional areas for FY 1998 and beyond.

Installment Agreement

A review of the entire installment agreement process was completed. The goal was to improve the process to help taxpayers make timely installment payments so that the number of system defaults decreased reducing reinstatement costs and increasing customer satisfaction. Fifteen procedural recommendations and one legislative proposal were developed. These findings were submitted to the business owner for implementation in the re-engineering efforts under way to refine the collecting process.

Federal Tax Deposit (FTD) Rules Simplification

The system for FTD remains complex for business taxpayers. The FTD group established the need to streamline deposit rules, simplify forms and notices, improve informational/instructional materials offered to businesses, increase access to

assistance, and reevaluate the fairness of certain penalties. A large number of specific recommendations were made in four areas: FTD rules simplification, forms and publications, procedural improvements, and organizational efficiencies. The FTD group will continue to monitor this issue and will further examine the Electronic Federal Tax Payments System.

Audit Reconsideration

This study recommends the consolidation of all audit reconsiderations in service centers. As a result of this project the Executive Officer for Service Center Operations (EOSCO) was charged with developing a strategy to implement this concept nationally. Field and headquarters from the involved operational areas constitute a working group that is reviewing data and making final recommendations for national implementation.

Offers in Compromise (OIC)

A project on differing aspects of the OIC process was undertaken by three separate groups to review the OIC process and recommend changes to reduce taxpayer burden. Southeast Region recommended that information obtained from rejected or unprocessable OICs be utilized for Collection Information Statements. Northeast Region looked at the underlying reasons for contrasting OIC processability rates among the districts. These recommendations are being considered for implementation by the national task force that is revising processes for the OIC program.

National Taxpayer Advocate Administrative Recommendations

During FY 1998, the NTA initiated 11 Advocacy Memoranda which contained 21 recommendations to improve the performance of IRS systems and improve customer satisfaction. Three of the responses are due in FY 1999. All of the recommendations have been agreed to as recommended, adopted with procedural variations, or enacted into law by RRA '98.

A detailed summary of the FY 1998 advocacy recommendations follows.

Summary Account of FY 1998 Advocacy Recommendations

#	Title	Recommended Action	Office Assigned	Response
1	Issues Impacting Divorced and Separated Taxpayers	Multiple recommendations to improve handling of procedures in cases involving divorced and separated taxpayers.	Chief Compliance	Provisions to improve this process enacted in RRA '98.
2	Waivers for the Extension of the Statute of Limitations for Collection.	<ul style="list-style-type: none"> -Reassess Collection policy for extending statute of limitations on cases that have been dormant. -Discontinue threat of enforcement as a tool to get taxpayer to sign a waiver for dormant accounts. 	Chief Compliance	Procedures changed. Deputy Commissioner issued instructions in March 1998 to discontinue this practice. Detailed procedures issued by the Assistant Commissioner (Collection) in August 1998.
3	Levies on Retirement Accounts	<ul style="list-style-type: none"> -Review existing policy and only consider levies on retirement accounts in flagrant cases. -Require administrative approval by the head of office. 	Chief Compliance	Responsible official agreed to both recommendations.
4	Procedures for Assisting Taxpayers Needing Form W-2	Improve IRS assistance for taxpayers who encounter difficulty in obtaining Forms W-2.	Chief Operations	Procedures require Customer Service front line assistants to follow up with taxpayers to ensure the receipt of corrected W-2s and assist the taxpayer to file a correct return if they do not receive a correct Form W-2.

#	Title	Recommended Action	Office Assigned	Response
5	Closing Notices to Taxpayers When Open Issues Are Resolved	Implement a policy to send closing notices in each instance where and open issue on a taxpayer account is resolved.	Chief Operations	Where this can be accomplished without extensive computer programming it will be implemented. After Y2K programs are installed will reexamine for feasibility of total implementation.
6	Change the language of IRM Policy Statement P-2-7	Change the language in this policy statement to clarify the conditions where reasonable cause penalties of Federal Tax Deposits may be appealed.	Chief Operations	Agreed. The change will be made in the next form revision.
7	Customer Service for Multilingual Taxpayers	Recommendations to improve one stop service to non English speaking taxpayers at first contact. -Establish toll free service number for multilingual assistance: Use private interpreter service, Add an opening prompt in Spanish to Teletax, Provide TRIS applications in Spanish, Translate high call demand notices into Spanish, Develop machine assisted translation system & Establish centralized oversight over multilingual issues	Chief Operations	A router will direct the caller to a Spanish assistor to be tested in two walk in sites in the 1999 filing season. This will be accomplished by a message in the Spanish queue & is targeted for the year 2000. This has been done for math error, adjustments and collection notices for international and Puerto Rico locations. A translator has been hired to perform this service with COTS Programs. This responsibility resides in Customer Service

#	Title	Recommended Action	Office Assigned	Response
8	Transfers of Returns Between Districts	Recommendations to provide that uniformity of criteria is applied for transferring returns that have been selected for examination between districts.	Chief Operations	Responsible official agreed to clarify and change IRM procedures. Form 3185, Transfer of Return, revised.
9	Proposal to establish a National Interest Administrator.	Establish a position with national responsibility for uniform application of administrative and operational issues relating to penalties and interest.	Chief Operations	Concur. A position will be established within the Assistant (Examination) organization.
10	Unperfected Assessments	Reassess the practice of making assessments in the Substitute for Return Program where the Service is unable to verify a valid taxpayer address	Chief Operations	Concur. Will be working with the Taxpayer Equity Task Force to implement.
11	Transfer of Refund Programs to Financial Management Service (FMS)	IDRS offset research capability discontinued due to transfer of Debtor Master File (DMF) to FMS. We recommend this capability continue to be available to allow Service to answer taxpayer questions and provide better service .	Chief Operations	FMS asked IRS to provide estimated requirements in terms of volumes and peak periods. Once information is supplied it will be reviewed and a determination made if either providing limited access to the National Delinquent Debtor Data Base or the availability of a contact person at FMS to supply this information telephonically can be implemented.

LEGISLATIVE PROPOSALS

Legislative change is warranted where current tax law may prevent the resolution of taxpayer problems or where it is felt service might be improved or burden to the taxpayer reduced. In the FY 1997 Annual Report, 18 proposals were recommended, five of which were in some measure incorporated into the RRA '98 Legislation. The remaining 13 proposals are being resubmitted as they are still worthy of consideration.

During FY 1998, the NTA encouraged suggestions for improvement from a variety of internal and external sources and received a number of legislative recommendations for consideration. Internal recommendations were developed as a result of field advocacy projects, Problem Solving Day contacts, Senate Finance Committee correspondence, and regular Problem Resolution Program case activity. Additionally, the NTA's staff developed proposals resulting from interactions with functional business areas within the IRS and individual tax cases. Some of the Equity Task Force proposals were submitted to the Subcommittee on Oversight on the Ways and Means Committee of the House of Representatives and the Senate Finance Committee earlier in 1998.

External proposals were gathered from tax practitioners and professional associations as well as one from the newly established Citizens Advocacy Panel from South Florida.

The proposals have been categorized by the reason that the legislation is needed:

- **Burden Reduction**
- **Equity or Fairness**
- **Hardship**

Legislative Recommendations for which both a brief synopsis and a more *detailed summary* of each proposal follow.

Synopsis of Recommended Legislative Proposals

BURDEN REDUCTION PROPOSALS (*The number of recommendations repeated from the 1997 Annual Report to Congress is shown in **[bold and italics]**.*)

1. **Simplify the Definition of Qualifying Child for the EITC [IRC section 32(c)(3)]**
[14]

Conform the definition of qualifying child more closely to the rules for dependency exemptions [IRC section 151(c) (3)]. Also, amend IRC section 32(c)(3) to provide that a child qualifies if that child meets the definition of a child claimed as a dependent and the child had its principal place of abode with the

taxpayer for over one half of the year. This proposal does not amend the identification and residency requirements of IRC sections 32(c)(3) (D) and (E).

2. Amend Deduction for Reimbursed Employee Business Expenses [IRC section 62(a)(2)]

Change the law to allow employee business expenses greater than employer reimbursement to be reported as a deduction from gross income instead of as a miscellaneous deduction (subject to the 2% of Adjusted Gross Income (AGI) threshold) on Schedule A. Current treatment of employee business expenses is inequitable to taxpayers who do not itemize deductions.

3. Simplify Education Loan Interest Deductions [IRC section 221(d)]

Replace the 60-month limit with a lifetime dollar limit and simplify the rules for documenting education interest deductions.

4. Simplify Home Ownership Deductions [IRC sections 163(h)(B) and 163(h)(C)]

Allow a deduction for all refinancing mortgage points for personal residences in the year paid. Simplify the rules, which link the deductibility of interest on loans for original purchase, refinance, or home equity to the current fair market value of the home. Provide purchase safe-harbors and simple conversion tables.

5. Repeal the Information Reporting Requirements Imposed on Colleges by the New Education Credits Enacted by the Tax Reform Act (TRA) 1997

Section 201 of the TRA 1997 provides for a new credit for tuition payments for students or their parents effective in TY 1998. The law requires colleges to provide information documents for tuition paid. This will be reported on a new information reporting document; Form 1098T. This places a large burden on colleges and gives taxpayers a new document that will be of little use to taxpayers claiming the credit and no use to the large number of taxpayers not taking the credit.

6. Simplify Deductions Used on Residential Rental Property [IRC section 179]

Change IRC section 179 to permit full deductions in the year the expense occurs for personal property (carpeting, refrigerators, washers, etc.) purchased and used in connection with residential rental property.

7. Allow Section 179 Expense to Be Claimed in Whatever Year the Taxpayer Makes the Election

A taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to capital account. Any section 179 property cost will be allowed as a deduction for the taxable year in which the section 179 property is placed in service. Taxpayers may not be able to receive the benefit of the Section 179 expense for the year of purchase. They should not be denied this deduction.

8. Simplify Deductions for Business Software [IRC section 167(f)]

Amend IRC section 167(f) and include computer software in IRC section 179(d)(-1) as Section 179 Property to allow a direct deduction in the year of purchase of non-customized computer software up to a specified dollar limit.

9. Apply Compound Interest Based Only on the Underlying Tax [IRC section 6622(b)]

Interest should not be charged on penalties or other additions to tax. This is more in line with the manner that interest is charged by financial institutions in the private sector.

10. Limit the Total Amount of Interest That Can Accumulate on a Liability to 200% of the Underlying Tax Liability [IRC section 6601(a)]

This is similar to the way some penalties are structured with certain percentage caps; for example, late filing penalties are currently limited to 25% of the underlying tax liability.

11. Amend IRC section 7502 to Consider the Postmark Date the Filing Date for All Returns

Allow the postmark date to be considered the filing date for all documents filed with the IRS. The postmark date would not govern payments mailed after the due date of a return.

12. Simplify the Computation and Assessment of the Estimated Tax Penalty or Eliminate the Estimated Tax Penalty and Have Interest Automatically Asserted [IRC sections 6654(a) and (d)] [12]

The current rules regarding the penalty for underpayment of estimated tax are extraordinarily complex for taxpayers and very difficult for the IRS to administer. The exceptions to this penalty, for which many taxpayers qualify, are difficult to compute and are the source of additional frustration.

13. Eliminate the Failure to Pay Penalty [IRC section 6651]

This penalty has served its useful purpose. Since 1983, when the IRS began compounding interest at market rates, rather than merely bringing interest rates in line with commercial rates, this penalty has become an onerous burden on taxpayers.

14. Require Rounding of Cents to Dollars on Tax Returns and Other Documents [IRC section 6102] [3]

Currently, taxpayers are allowed to choose to round to the nearest whole dollar or to include the exact cents on paper returns. This is a source of burden and confusion for taxpayers. The added complexity of using cents in the many required mathematical calculations increases taxpayer and IRS errors. These errors result in many IRS notices to taxpayers. This proposal would conform the requirements for paper returns with the practice used by electronic filing, which requires rounding.

15. Allow Taxpayers to Report Capital Gain Distributions from Mutual Funds Without Having to Complete Schedule D [IRC section 1(h)]

IRC section 1(h) requires any capital gain distribution from a mutual fund to be reported on Schedule D, Form 1040, *Capital Gains and Losses*. The tax computation on Schedule D, modified because of the enactment of TRA 1997, is extremely difficult for taxpayers. The requirement that these gains be reported on Schedule D has resulted in a sharp increase in taxpayer burden.

16. Extend Disclosure Authority for Suicide Threats to Local Enforcement Agencies [IRC section 6103] [15]

Amend the IRC to allow the IRS to contact and provide certain information to local law enforcement authorities in cases of suicide threats. Currently, the IRS may only contact federal and state law enforcement authorities.

17. Amend IRC section 6103(e)8, Disclosure of Collection Activities With Respect to Joint Return, and TBOR2 to Honor Oral Requests From a Former Spouse or Authorized Representative for Disclosure of Joint Return Collection Activities

Under the current law, if a former spouse requests disclosure of collection activities with respect to a joint return and cites IRC section 6103(e)8 or TBOR2, the request must be in writing, and it excludes an authorized representative from obtaining the information. This is in complete contradiction of IRC section 6103(e)7, Return Information, which allows the information to be open to any

person authorized to receive it. A verbal request is sufficient to obtain the information under IRC section 6103(e)7.

18. All Funds Received at the End of the Year Should be Excluded From Income When Those Funds Must be Repaid Early in the Succeeding Year [IRC section 61]

Taxpayers should be permitted to exclude certain amounts for income received within 30 days of the close of the taxable year that must be repaid in the following year.

19. Accept Telephonic Agreements to Close Cases with Assessments Under \$1,500 [IRC sections 6213(a) and (b)(4)]

Amend IRC section 6213 to allow the taxpayer the option of a telephonic waiver of restriction (agreement to additional assessments) in those cases where the deficiency (not including penalty and interest) does not exceed \$1,500. Implementation of this change would reduce taxpayer burden by eliminating an additional taxpayer contact by the IRS to secure formal signatures and reducing the time to close a case, thereby minimizing interest that would accrue. In addition, this change would increase administrative efficiency and result in a cost savings to the service centers.

20. Allow IRS To Use Electronic Means To Notify Taxpayers That Their Refunds Have Been Returned As Undeliverable

Amend Internal Revenue Code section 6103(m)(1) to extend disclosure of undeliverable refund information by the IRS directly to the public via the Internet without being limited to newspapers and other public announcements.

EQUITY & FAIRNESS PROPOSALS

21. Amend IRC section 32(c)(1)(C) to Permit the EITC to Taxpayers Who Reside with Other Eligible Adults

Amend IRC section 32(c)(1)(C) so that the EITC is not denied to taxpayers/parents (with qualified children) who would otherwise be entitled to the credit, merely because they share household expenses with another adult who could claim the credit.

22. Eliminate the Age Requirement for Taxpayers to Qualify for the EITC [IRC section 32(c)(1)(A)(II)]

Currently a taxpayer must either have a qualifying child or if they do not have a qualifying child, an individual must not be a dependent and must be over the age of 25 and under the age of 65. This is inequitable to taxpayers who are under 24 with no dependents whose income is within the range for EITC (under \$10,030 for 1998).

**23. Deduction for Repayment of Income Previously Reported [IRC section 1341]
[2]**

Instead of a deduction on Schedule A (of Form 1040), allow taxpayers either to report as a deduction from gross income or amend their return for repayments of amounts previously reported as taxable income.

24. Allow Moving Expenses as a Deduction From Gross Income Without Having to Itemize

Current treatment of moving expenses is inequitable to taxpayers who do not itemize deductions. These taxpayers incur legitimate moving expenses during the taxable year in connection with the commencement of work as an employee or as a self-employed individual, but they do not receive the tax benefit of being able to deduct them.

25. Allow Taxpayers to Receive Refunds of Prepaid Credits on Late Filed Returns [IRC section 6511] [8]

IRC section 6511 states that a claim for credit or refund of an overpayment must be filed by the taxpayer within three years from the date he or she filed the return or two years from the date he or she paid the tax. In the filing of an original return, the taxpayer will not receive a refund of excess prepaid credit (withholding and estimated tax) if the taxpayer files his or her return more than three years from the due date. Taxpayers who file late returns are often put in the position of owing tax for recent years while losing prepaid credits from earlier years. This does little to encourage delinquent taxpayers to reenter the system. The NTA has two alternative recommendations to amend IRC section 6511:

- c. Allow the refund of overpayments on claims for credit or refund after the three-year period. Interest on that refund should be allowed if the return is not processed within 45 days.
- d. Allow offsets from an otherwise closed year only to certain balance

due accounts for the same taxpayer. Offsets would be permitted only for returns due during the period when a credit or refund from the closed year would have been allowable under existing law.

26. Allow Reversals of Estimated Payments That Were Elected to Apply for a Succeeding Tax Year [IRC section 6513(d)] [10]

If a taxpayer elects to have all or part of an overpayment shown on a return applied to the estimated tax for the succeeding taxable year, such election is binding. If an amended return is filed showing an underpayment, the taxpayer is not allowed to pay the liability with the previously elected credit.

27. Allow an Overpayment Credit to Be Applied to Other Liabilities as of the Same Date That the Credit Would Have Been Applied to Tax on the Overpaid Return. [IRC Sections 6601 and 6611] [11]

Allow for an overpayment on a late filed return to be applied to other liabilities as of the same date that the credit would be applied to tax on the overpaid return.

28. Change the Refund Statute Laws to Allow Refunds of All Money Paid to the IRS if the Trust Fund Recovery Penalty Assessment is Later Determined to Be Invalid [IRC section 6511(a)]

Currently, if a taxpayer was assessed a Trust Fund Recovery Penalty and made payments over multiple years and the IRS later reviewed their determination and reversed the assessment in full, the taxpayer would only be allowed a refund of the funds paid during the preceding two years.

29. Abate of Interest Attributable to Unreasonable Errors and Delays by Internal Revenue Service [IRC section 6404(e)]

Amend IRC section 6404(e) to state that the Secretary may abate any assessment of interest or portion thereof, attributable to unreasonable error or delay, where the Secretary determines that the failure to abate such assessment is not in the best interest of the taxpayer or the United States. Interest abatement issues have continually plagued taxpayers and the Service. A significant portion of the cases worked in the Problem Resolution Program over the last twenty years involved interest abatement issues and has been one of the major Problem Solving Day issues as well. Interest is rarely abated under the “ministerial act” provision of the statute unless the taxpayer’s specific situation mirrored an example provided in the applicable regulations. The first **Taxpayer Advocate Directive** (TAD) issued by the National Taxpayer Advocate directed the Service to abate penalties on “innocent spouse” cases. This amendment to IRC section would have allowed the abatement of interest on these cases when

deemed appropriate.

30. Redefine “Household” for Head of Household Filing Status [IRC section 2(b)]

Currently a taxpayer may file as head of household if they are not married at the close of the taxable year and maintain a household for more than half of the year for a son, daughter, stepson, or stepdaughter etc. An individual is considered as maintaining a household only if he or she furnishes over half of the cost of the household. This definition does not fit today’s family structure and household. Many taxpayers who maintain a home for their offspring are not permitted to claim head of household simply because they either share household expenses with another adult who also qualifies for head of household (i.e., two unmarried women with children who split the rent and utilities) or pay rent to for a room in a family member’s home (i.e., a son with a child pays his mother who is unmarried and has a dependent child rent a room).

31. Repeal IRC section 6404(b)

Currently IRC sections 6404(a) and (b) have conflicting procedures. Subsection (a) authorizes abatements of the unpaid portion of the assessment of any tax or any liability in respect to that tax which is excessive, erroneous or illegal, or is assessed after expiration of the applicable period of limitation. Subsection (b) states that no claim for abatement shall be filed by a taxpayer in respect of an assessment of Income, Estate, and Gift Taxes. The implication is that IRS may abate tax on its own initiative, but that taxpayers cannot request IRS to adjust their tax. IRS offices routinely process claims for abatement of tax and IRS manuals have procedures for processing claims filed within the statute of limitation for reducing tax without requiring that the tax be paid. At one time, IRS insisted that taxpayers pay the amount owed before filing a claim for reduction of tax. The IRS philosophy has changed and it is emphasized by the rule stated in IRC section 6404(a), yet IRC section 6404(b) can be used to deny these timely filed amended returns.

32. Allow Taxpayers to Get a Return of Levied Property [IRC section 6343(d)] During the Two-Year Period From the Date of the Levy

Increase the time for the release of a levy and the reasons a levy may be released. Currently, the period expires nine months from the date of a levy.

33. Amend IRC section 6651 to Waive the Failure to Pay (FTP) Penalty When an Approved Installment Agreement is in Effect

No FTP penalty would accrue during the period in which a taxpayer was abiding by the terms of a formally approved agreement. A caveat could be inserted in the agreement which would reinstate the FTP penalty if the taxpayer were to default before completing the terms of the agreement.

34. Amend IRC section 6702 (Frivolous Income Tax Return) to Permit Reasonable Cause Penalty Relief in Appropriate Cases

Currently no abatement criteria are included in the IRC. A new code section would be required and reasonable cause would have to be defined. An example of when the reasonable cause abatement would be applicable is when a taxpayer who was misled by someone like a local tax protest promoter and who later realized his or her mistake and then voluntarily filed and paid and established a good compliance record.

35. Expand the Statute Expiration Date When the Delay Was Caused by Another Government Agency [IRC sections 6511 and 6514(a)] [9]

Allow for an extension of the statute date for refund claims in cases where the taxpayer had relied on another government agency to handle the matter. This statute could expire one year after the determination is made by the other agency on the taxpayer's claim.

HARDSHIP PROPOSALS

36. Allow for Refunds to Bypass Offsets to Other IRS Liabilities in Hardship Situations [IRC section 6402(a)] [4]

Current law allows for the offsetting of federal tax overpayments to be applied to outstanding and overdue debts to the IRS. We propose that an exception be made to this for hardship Taxpayer Assistance Order (TAO) cases including those after the IRS assessment date of the return generating the overpayment, so that refunds can be made to the taxpayer.

37. Allow for Refunds to Bypass Offsets to Debts to Other Government Agencies in Hardship Situations [IRC sections 6402(c) and (d)] [6]

IRC sections 6402(c) and (d) mandate the offsetting of tax overpayments to outstanding and overdue debts to other government agencies. The NTA proposes that an exception be made to this for hardship TAO cases so that refunds can be made to the taxpayer.

38. Exempt the Earned Income Tax Credit (EITC) from Offsetting to Federal Tax and Debtor Master File (DMF) Liabilities [IRC section 6402(a)] [7]

Exempt the EITC from the DMF/Refund Offset Program to ensure that at least this portion of a taxpayer's refund goes to the taxpayer rather than offsetting to other debts. The original purpose of the EITC was to encourage low-income working taxpayers to stay employed. It was not intended to be used as a backup collection tool. This is even more relevant with the Welfare Reform provision that is requiring able taxpayers to work after a specified number of years on welfare.

39. Waive the 10% Addition to Tax for Early Withdrawal from an IRA or Other Qualified Plan in Cases of Hardship [IRC section 72t] [1]

Amend IRC section 72t so that the 10% additional tax on early distributions from an IRA or other qualified plan may be waived for taxpayers in hardship situations in cases where the plan administrator failed to furnish the required statement.

Comprehensive Explanation of Legislative Proposals

BURDEN REDUCTION PROPOSALS

1. Simplify the Definition of Qualifying Child for the EITC [IRC section 32(c)(3)]

Current Law: Although similar, IRC sections 32 and 151 have somewhat different tests for eligible children for purposes of obtaining the EITC and for purposes of obtaining personal exemptions for dependents, respectively. In general, section 32 has a general test, a relationship test, an abode test, and an age requirement. Section 151 (and its companion IRC section 152) have a general test, a relationship test, an age requirement, a support test, and a test for children of divorced parents. The eligibility tests to claim children as dependents under section 151 have been in place for many years and most taxpayers are familiar with them. While the section 32 tests are similar to the section 151 tests, under current law, differences can confuse taxpayers and unnecessarily complicate determining who is a qualifying child for the EITC.

Reason for Change: Having two different definitions for eligible children under IRC sections 32 and 151 makes the IRC unnecessarily complex. Taxpayers can easily be confused by the different tests used in section 32 for a “qualifying child” and the tests used in section 151 for a “dependent child.” The IRC should adopt a uniform definition of eligible children. Recently adopted provisions of the tax code have attempted to tie their definitions of terms to already existing definitions. For example, section 101 of the Tax Reform Act (TRA) of 1997, the Child Tax Credit, ties its definition of “qualifying child” in part to section 151. To simplify claiming the EITC and reducing the burden on millions of taxpayers, the proposal recommends that the law be changed so that a more uniform definition is used.

Proposed Change: The proposal would reduce the distinctions between “qualifying child” in IRC section 32, relating to the EITC, and “dependent child” as used in section 151(c)(3), relating to personal exemptions for dependents. The proposal amends section 32 to provide that a child is qualified if the child meets the definition of a child claimed as a dependent under IRC section 151(c)(3) and the child has his or her principal place of residence with the taxpayer for over one half the year. (**Note:** This proposal does not amend IRC section 32’s identification and United States residency requirements.)

2. Amend Deduction for Reimbursed Employee Business Expenses [IRC section 62(a)(2)]

Current Law: Certain reimbursed trade and business expenses of employees are deductible under IRC section 62(a)(2). The deductions are allowed by part VI (IRC section 161) and consist of expenses paid or incurred by a taxpayer, in connection with the performance of services as an employee, under a reimbursement or other expense allowance arrangement with his or her employer. The expenses that are unreimbursed are deductible from Adjusted Gross Income (AGI) as itemized deductions (IRC section 63(d))

and are subject to the 2% floor of IRC section 67.

Reason for Change: Current treatment of employee business expenses is inequitable to taxpayers who are not reimbursed by their employers and do not itemize deductions. These taxpayers, who are paying for expenses for their employers' benefit without being reimbursed, may not have sufficient other deductions such as home mortgage interest or charitable contributions to claim itemized deductions. Other taxpayers may not have sufficient deductions to exceed the 2% floor of IRC section 67. These taxpayers are therefore not allowed the benefit of deducting legitimate expenses that others can deduct simply because their employer does not reimburse expenses. Therefore, they are being penalized twice.

Proposed Change: Change IRC section 62(a)(2) to allow employee business expenses greater than employer reimbursement **and** unreimbursed expenses to be reported as a deduction from gross income instead of a Miscellaneous Itemized Deduction (subject to the 2% of AGI threshold) on Schedule A.

3. Simplify Education Loan Interest Deductions [IRC section 221(d)]

Current Law: The TRA of 1997 allows interest deductions for qualified education loans for 60 months. However, the 60-month term is confusing as to when it begins and ends and any periods of suspension. Taxpayers must keep records to verify the qualified expenditures. Records from several years ago may not be available for inspection.

Reason for Change: Replacing the 60-month limit on the deduction with a lifetime dollar limit will result in better compliance and decreased complexity. Additionally taxpayer burden will be reduced by simplified rules and record keeping standards that are easily attainable for documenting deductions of interest for qualified education loans.

Proposed Change: Replace the 60-month limit on the deduction with a lifetime dollar limit and simplify the rules for documenting deductions of interest for qualified education loans.

4. Simplify Home Ownership Deductions [IRC sections 163(h)(B) and 163(h)(C)]

Current Law: Acquisition points and refinancing points receive disparate treatment because of complexities in the law. All home mortgage points are eventually deductible. Some are amortized over the life of the loan, while some are deducted in the year of the loan. Current law also allows deductible mortgage interest only to the extent that it does not exceed the fair market value of the principal residence. A fully-secured loan may become only partially deductible in a declining housing market. Recently, home equity lenders have begun offering equity loans up to 135% of fair market value. There is no ready mechanism to alert taxpayers who will inadvertently claim deductions greater than those allowed because under current reporting rules lenders send a Form 1098 showing the full amount of interest paid.

Reason for Change: For deductibility of points, simplification will eliminate the complex calculations required of taxpayers and help them comply with the requirements.

For interest deductibility, budget savings will result due to increased taxpayer compliance with smaller enforcement costs. Taxpayers and even some tax professionals are not aware of these limitations, causing excess deductions to be taken. In declining housing markets, such as in Texas and California in the 1980's, many taxpayers probably did not adjust deductible interest. A built-in safe harbor could protect taxpayers from declines. In light of greater than 100% equity lending trends, safe harbors or tables would be simpler than current, often incorrect, estimates and calculations and be less expensive than enforcement costs and lost revenue caused by excessive deductions.

Proposed Change: Change IRC section 163(h) to allow a deduction for all refinancing mortgage points for personal residences in the year paid. Simplify the rules, which link the deductibility of interest on loans for original purchase, refinance, or home equity to the current fair market value of the home. Provide purchase safe-harbors and simple conversion tables.

5. Repeal the Information Reporting Requirements Imposed on Colleges by the New Education Credits Enacted by TRA 1997

Current Law: Section 201 of TRA 1997 provides for a new credit for tuition payments for students or their parents effective in TY 1998. The statute mandates that colleges provide information documents for tuition paid. A new information reporting document, Form 1098T, was developed for this purpose.

Reason for Change: The new law requires colleges to collect information that will be of little or no use to the IRS, the college, or taxpayers (student or parents). Colleges must also file information documents with taxpayers and the IRS reporting the tuition paid. This places a large burden on colleges and provides taxpayers with a new document that will be of little use to taxpayers claiming the credit and no use to the large number of taxpayers not taking the credit.

There is a major difference between information reporting on tuition payments and information reporting on interest and dividends. Information reporting on interest and dividends are financial transactions that usually create a taxable event. The payment of tuition like medical expenses, child care, and dozens of other payments made by individuals may yield a tax deduction or credit - but very often will not. The IRS can check taxpayer compliance of this credit much in the way it does with other credits and deductions. Many types of interest and dividends are difficult for taxpayers to compute (Original Issue Discount, a multi-year Certificate of Deposit, and dividend reinvestment programs etc.). In these cases, information documents are helpful to taxpayers. However, tuition payments are easy to ascertain. Colleges already detail them at great length.

Since various adjustments must be made to the tuition amount when computing the credit

(adding certain fees and subtracting others), the amount reported on a Form 1098T is unlikely to be the same as the amount shown as a credit on the return. The college may not have the parents' SSNs and there is some question about whether the IRS can require the parents to provide them. The parents may not be involved; the student may be paying his or her own tuition and claiming the credit on their own return. The school would not know who would be eligible to claim the credit, in fact it may not be clear to the parents or students exactly who will claim the credit until after the school year is over. Often, Form 1098T will be mailed to the wrong party, at the wrong address, with incorrect amounts. This would make any document matching program extremely difficult.

Proposed Change: Repeal the information reporting requirements of section 201 of TRA 1997.

6. Simplify Deductions Used on Residential Rental Property [IRC section 179]

Current Law: Currently, residential rental property must be depreciated over seven years. Many taxpayers are not aware of the limitation imposed by IRC section 179, and the cost of certain personal property is often listed on the tax return as another expense and deducted in full in the year of purchase. IRC section 179 (d)(1) defines 179 Property and states that it does not include property described in IRC section 50(b). IRC section 50(b)(2) is "PROPERTY USED FOR LODGING " and excludes non lodging commercial facilities, hotels and motels and certain certified historic structures. Therefore, residential rental property is IRC section 50(b) property.

Reason for Change: A change to IRC section 179 will result in simplification and increased compliance. This common error and misclassification are normally uncovered during an audit. This burdens the taxpayer with interest and possible penalties when the correct procedure is not followed.

Proposed Change: Change IRC section 179 to permit full deductions in the year the expense occurs for personal property (carpeting, refrigerators, washers, etc.) purchased and used in connection with residential rental property.

7. Allow Section 179 Expense to Be Claimed in Whatever Year the Taxpayer Elects to Do so

Current Law: A taxpayer may elect to treat the cost of any section 179 property as an expense that is not chargeable to capital account. Any section 179 property cost is allowed as a deduction for the taxable year in which the section 179 property is placed in service.

Reason for Change: Taxpayers may not be able to receive the benefit of the Section 179 expense for the year of purchase. They should not be denied this deduction.

Proposed Change: Allow taxpayers to elect to claim Section 179 expense in whatever

year they chose.

8. Simplify Deductions for Business Software [IRC section 167(f)]

Current Law: Current law provides that most software must be amortized over 36 months. Common software for word processing, communications, and tax preparation is usually updated within the current 36 month recovery period. This causes additional complexity in tax preparation when the deduction is claimed over several years.

Reason for Change: Compliance would increase with a decrease in complexity. The 36-month period is regularly overlooked by many taxpayers.

Proposed Change: Amend IRC section 167(f) and include computer software in IRC section 179(d)(1) as Section 179 Property to allow the direct deduction in the year of purchase of non-customized computer software up to a specified dollar limit.

9. Apply Compound Interest Based Only on the Underlying Tax [IRC section 6622(b)]

Current Law: IRC section 6622 was added to the IRC in 1982 and made effective for interest accruing after December 31, 1982. This section provides for interest to be compounded daily. IRC section 6622(b) specifically identifies that with respect to additions to tax under IRC section 6654 (Individual Estimated Tax Penalty) and 6655 (Corporation Estimated Tax Penalty) interest does not apply. In all other cases of penalties and/or additions, compounded interest is then considered to apply.

Reason for Change: The application of compounded interest to penalties and additions to tax artificially raises the effective interest rates to a level significantly higher than even prevailing unsecured liability rates. Private business practice does not add interest to additions. For example, an addition for late payment of one month's payment on a mortgage or credit card payment is added to only the payment that is late. It does not affect other payments nor is interest computed on the addition. Also, the inordinately high number of penalties in the IRC often results in several penalties being applied simultaneously to the same tax, all with compounding interest. Recent events have graphically demonstrated that Congress did not intend for these exorbitantly high tax liabilities to be artificially computed.

Proposed Change: Amend IRC section 6622(b) to read, "Exception for Penalties or Other Additions to Tax. - Subsection (a) shall not apply for purposes of computing the amount of any penalty or addition to tax authorized under this title."

10. Limit the Total Amount of Interest That Can Accumulate on a Liability to 200% of the Underlying Tax Liability [IRC section 6601(a)]

Current Law: IRC section 6601(a) provides that interest will be computed “for the period from such last date [generally the return due date] to the date paid.” There is no limit on how much interest that may accrue.

Reason for Change: Over the past few years, the IRS and even Congress has heard repeated “horror stories” in which accruals have raised a tax liability to many times its original amount, often reaching levels that make it impossible for a taxpayer ever to hope to liquidate their liability. Typically these inordinately high accruals counter their original intent and circumvent voluntary compliance by creating tax liabilities that are so high that the taxpayer reaches the conclusion that even attempting to make payments is an exercise in futility. In other situations, the assessment and collection process have been extended for many years and the taxpayer’s current age, health, and financial situations have changed to the point that these excessive accruals can never be paid and their continued existence creates an onerous mental burden. Precedence is found in the IRC for limiting additions to a percentage of the tax in many penalties present. For example, the Failure to File [IRC section 6651(a)] Penalty is limited to a maximum of 25% of the underlying tax.

Proposed Change: Amend IRC section 6601(a) by adding “or until the accrued interest reaches 200% of the underlying tax.” to the end of the sentence. That sentence will then end “. . . shall be paid for the period from such last date to the date paid, or until the accrued interest reaches 200% of the underlying tax.”

11. Amend IRC section 7502 to Consider the Postmark Date the Filing Date for All Returns

Current Law: IRC section 7502(a) allows for a postmark to be considered the date of delivery for an original return or a claim if that postmark falls within the due date (including extensions) for filing of the return or claim. However, if a taxpayer files a delinquent refund return for 1994 and it is received on April 20, 1998 with a postmark date of April 15, 1998, it will not be considered a timely filed return for the purposes of issuing a refund of prepaid credits because it was received after the return due date.

Reason for Change: Taxpayers misunderstand the postmark rules of IRC section 7502 as they apply to amended or delinquent returns. As a result, refunds and credits have been disallowed for taxpayers filing original returns near the end of the statute of limitations period established by section 6511. The postmark date is material only when a return is filed on or before its due date. If it is mailed after its due date (including extensions), it is considered filed on the date it is received by the IRS.

Proposed Change: Amend IRC section 7502 to allow the postmark date to be considered the filing date for all documents, except for payments filed with the Internal Revenue Service. Section 7502(a)(3) should be added to read:

(3) CLAIMS -- If any claim for refund or credit (including claims made on properly

executed original or amended returns) is postmarked on or before the last date prescribed for allowance of a refund or credit under section 6511, the postmark date shall be deemed the date of delivery.

12. Simplify the Computation and Assessment of the Estimated Tax Penalty or Eliminate the Penalty and Have Interest Automatically Asserted [IRC sections 6654(a) and (d)]

Current Law: IRC section 6654(a) provides an addition to tax when an individual fails to pay (or underpays) estimated income tax. The addition to tax or penalty is determined by applying the underpayment rate to the amount of the underpayment for the period of the underpayment. The amount of the underpayment is defined in IRC section 6654(b) as the excess of the “required installment” over the amount paid.

IRC section 6654(d) defines the “Amount of Required Installments.” Generally, the amount of required installments is 25% of the required annual payment. The required annual payment is defined in IRC section 6654(d)(1)(B) as the lesser of (1) 90% of the tax shown on the return for the taxable year or (2) 100% of the tax shown on the return for the preceding taxable year. IRC section 6654(d)(2)(B) provides for a lower required installment when the annualized income installment is less than the installment computed under the above section [6654(d)(1)(B)].

IRC section 6654(d)(2)(B) provides that for any required installment, an annualized income installment is the excess (if any) of an amount equal to the applicable percentage of the tax for the taxable year computed by placing on an annualized basis (defined in IRC section 6654(d)(2)(C)) the taxable income, alternative minimum taxable income, and adjusted self-employment income for months in the taxable year ending before the due date for the installment over the aggregate amount of any prior required installments for the taxable year. Exceptions to the penalty are found in IRC section 6654(e).

Reason for Change: The current law is extremely complex for taxpayers and difficult for the IRS to administer. The computations required to determine the penalty amount are complex. The “annualized income installment method” which could result in a lesser penalty is inordinately complex. The exceptions to the penalty, for which many taxpayers qualify, are difficult to compute and serve as an additional source of frustration. Taxpayers are required to complete Form 2210 to show that they qualify for an exception that can lower or eliminate the penalty. Form 2210 is one of the most complex and difficult of the current tax forms.

Proposed Change: (1) Simplify IRC section 6654 so that the computation of the underpayment penalty for estimated tax is easier for taxpayers to compute, or (2) Eliminate the penalty and allow the interest to be automatically asserted.

13. Eliminate the Failure to Pay Penalty [IRC section 6651]

Current Law: IRC sections 6651(a)(2) and (3) provide for a penalty of 0.5 percent per month for failure to pay the amount shown as tax on a return, not exceeding 25 percent of the aggregate [tax], unless it is shown that such failure is due to reasonable cause. The Omnibus Budget Reconciliation Act of 1985 added IRC section 6651(d) to provide for the computed rate of the penalty to be increased to 1 percent per month after issuance of the notice under IRC section 6331(d), generally called the final notice; or after notice and demand for immediate payment is given under IRC section 6331(a), generally relating to jeopardy situations.

The penalty was implemented in 1970 to effectively raise the interest rate that, at the time was 6 percent accruing as simple interest on tax only. A penalty was instituted rather than a change in the interest rate because at the time, interest was deductible from taxable income and penalties were not deductible. The reason for the rate increase effective January 1, 1986, was little more than a process to raise revenue as part of the Omnibus Budget Reconciliation Act. Originally this increase was referred to as a “Collection Charge.”

Reason for Change: The 1983 and 1986 changes to IRC sections 6621 and 6622 provided for interest to be compounded, applied to most additions to tax, and to be adjusted quarterly as the short-term Federal rate changes. These changes have significantly increased the amounts charged as interest and obsolete the need for a penalty to elevate interest to market rates.

Proposed Change: Repeal IRC sections 6651(a)(2), 6651(a)(3), and 6651(d).

14. Require Rounding of Cents to Dollars on Tax Returns and Other Documents [IRC section 6102]

Current Law: IRC section 6102(a) authorizes the Secretary to provide with respect to any amount required to be shown on a tax return; that, either the fractional part of a dollar shall be disregarded, or the fractional part of a dollar shall be disregarded unless it amounts to one half dollar or more, in which case the amount shall be increased by \$1. Section 6102(b) provides that any person making a return, statement, or other document shall be allowed, under regulations prescribed by the Secretary, to make such return, statement or other document without regard to subsection (a).

Reason for Change: The use of cents confuses both taxpayers and IRS employees processing the returns and frequently results in errors. These errors should be reduced with a resulting reduction in the cost of correspondence and taxpayer burden associated with correcting the errors. Many tax professionals have been rounding for years and major payroll service firms see this as a step forward in simplifying income tax withholding. This proposal was submitted previously to the Treasury by Commissioner Richardson in December 1993 in an effort to “help IRS shift from a paper based processing environment to one based primarily on electronically filed returns and electronic funds transfers.”

Currently, amounts on electronic returns are reported in whole dollars only. Many states have already adopted this practice.

Proposed Change: Repeal IRC section 6102(b) which allows taxpayers to report line entries on tax returns and attached schedules in both dollars and cents.

15. Allow Taxpayers to Report Capital Gain Distributions From Mutual Funds Without Having to Complete Schedule D [IRC Section 1(h)]

Current Law: IRC section 1(h) requires any capital gain distribution from a mutual fund to be reported on Schedule D, Form 1040, *Capital Gains and Losses*. This is true even for taxpayers who have limited amounts of money invested in mutual funds and have small gains. The TRA 1997, Pub Law 105-34, section 311, amended IRC section 1(h), lowering the tax rate on capital gains and creating several different rates for these gains. This change in the law required expanding Schedule D to allow taxpayers to compute tax on capital gains, including capital gains distributions, separately from the computation of tax on other income.

Reason for Change: The tax computation on Schedule D, created because of the change in law, is extremely difficult for taxpayers. Many small investors prepare their own tax returns and are left to struggle with the complex calculations. For TY 1997, the IRS service centers reported a large increase in the number of taxpayer errors on Schedule D and an increase in the number of returns filed without the required Schedule D. For TY 1996, before the changes enacted by TRA '97, almost 5½ million taxpayers reported capital gain distributions directly on the front of Form 1040. The requirement that these gains be reported on Schedule D has resulted in a sharp increase in taxpayer burden.

Proposed Change: There are two possible solutions to the problem:

- (1) Allow all capital gain distributions from mutual funds to be taxed at one specified rate, perhaps the lowest tax rate (20%). Reporting the total capital gain distribution could be done on Schedule B, *Interest and Dividend Income*, with the relatively simple computation of the 20% tax computed on that schedule, which many taxpayers would be filing anyway. The tax would be reported on page 2 of the Form 1040 as one of the "Other Taxes." Taxpayers who want to offset other losses or who exceed a certain level of income or amount of capital gain distribution would be required to report these gains on Schedule D as the current law requires.
- (2) Allow taxpayers the option of reporting capital gain distributions directly on the front of Form 1040 (as was done before TRA 1997) without completing Schedule D. This would tax these distributions at the same (higher) tax rate as other income (wages, salaries, etc.). While taxpayers generally would pay more tax using this approach, the additional tax for the large number of individuals with small capital gain distributions would be minimal - less than the cost of having a paid preparer complete

Schedule D. This is similar to the option given to taxpayers who pay foreign taxes. While foreign taxes may be taken as a credit against other taxes (subject to many limitations) on Form 1116, Foreign Tax Credit, taxpayers are allowed to avoid completing the complex Form 1116 and take the foreign tax as an itemized deduction.

16. Extend Disclosure Authority for Suicide Threats to Local Enforcement Agencies [IRC section 6103]

Current Law: IRC section 6103(i)(3)(B), “Emergency Circumstances,” allows the Service to disclose necessary return information to any Federal or State law enforcement agencies in situations involving danger of death or physical injury, but it may not provide information to local law enforcement authorities, such as county, city, or town police.

Reason for Change: When a taxpayer threatens suicide as part of a tax-related issue, the IRS employee who hears the threat is prevented from contacting local law enforcement authorities. These authorities are usually the closest to the situation and are in closer contact with suicide hot lines and other social agencies that may be available to help the individual. Often, the individual’s address that is available to IRS employees through various records, is the information that would most aid a local law enforcement agency. This action could save the life of an individual who may be suffering serious stress from a tax-related situation. This is an extremely sensitive area and a great deal of discretion would need to be exercised. However, the potential to save a human life clearly prevails over other concerns.

Proposed Change: Amend IRC section 6103(i)(3)(B) to allow the IRS to contact and provide information to specified local authorities when a creditable suicide threat is received.

17. Amend IRC section 6103(e)(8), Disclosure of Collection Activities with Respect to Joint Return, and TBOR2 to Honor Oral Requests from a Former Spouse or Authorized Representative for Disclosure of Joint Return Collection Activities

Current Law: If a former spouse requests disclosure of collection activities with respect to a joint return and cites IRC section 6103(e)(8) or TBOR2 the request must be in writing, and it excludes an authorized representative from obtaining the information. This completely contradicts IRC section 6103(e)(7), Return Information, that allows the information to be open to any person authorized to receive it. A verbal request is sufficient to obtain the information under IRC section 6103(e)(7).

Reasons for Change: This will eliminate the discrepancy between IRC section 6403(e)(7), “RETURN INFORMATION” and IRC section 6103(e)(8), “DISCLOSURE OF COLLECTION ACTIVITIES WITH RESPECT TO JOINT RETURN.” These code sections contradict each other. One allows honoring an oral request for disclosure of collection activities with respect to a joint return, in addition to providing the information to either spouse or their authorized representative, (IRC section 6103(e)(7)), while the other (IRC section 6103(e)(8)) requires the request be

made in writing by either spouse, and precludes an authorized representative from obtaining the information.

Proposed Change: Amend IRC section 6103(e)(8) to eliminate the discrepancy between the two code sections, but more importantly to reduce taxpayer burden. Section 6103 (e)(8) should read as follows:

“DISCLOSURE OF COLLECTION ACTIVITIES WITH RESPECT TO JOINT RETURN If any deficiency of tax with respect to a joint return is assessed and the individuals filing such returns are no longer married or reside in the same household, upon request by either of such individuals, or any person authorized by either of such individuals, the Secretary shall disclose to the individual making the request whether the Secretary has attempted to collect such deficiency from such other individual, the general nature of such collection activities, and the amount collected. The preceding sentence shall not apply to any deficiency that may not be collected by reason of IRC section 6502.”

18. All Funds Received at the End of the Year Should be Excluded From Income When Those Funds Must be Repaid Early in the Succeeding Year [IRC section 61]

Current Law: Income is taxable in the year in which it is received for cash basis taxpayers.

Reason for Change: taxing income in a year when the transaction is incomplete at years' end is unfair. Requiring the taxpayer to adjust income in the year following the receipt of the income is burdensome.

One example is when a taxpayer received a lump sum settlement from the Social Security Administration because of a suit for denial of social security disability in the last week of the year. The taxpayers' insurance company paid him a percent of his salary until the suit was settled and withheld taxes. The settlement letter was not received until the first week of the next calendar year. Under current law, payments from the insurance company have to be reported as income in the year received, even though the taxpayer had to return a portion to the insurance company one week later, which was in the subsequent calendar year. The Social Security Administration did not withhold tax on the lump sum payment. The taxpayer received no benefit of the money the week it was in his possession.

Proposed Change: Add an exclusion from income for incomplete transactions if they occur within a continuous 30 day time period spanning two calendar years.

19. Accept Telephonic Agreements to Close Cases with Assessments Under \$1,500 [IRC sections 6213(a) and (b)(4)]

Current Law: IRC section 6213(a), Restrictions Applicable to Deficiencies; Petition to Tax Court, states that within 90 days, or 150 days if the notice is addressed to a person outside

the United States, after the notice of deficiency is mailed (not counting Saturday, Sunday, or a legal holiday in the District of Columbia as the last day), the taxpayer may file a petition with the Tax Court for a redetermination of the deficiency. Section (b)(4) states in part that in any case where such amount is paid after the mailing of a notice of deficiency, such payment does not deprive the Tax Court of jurisdiction over such deficiency determined without regard to such assessment.

Reason for Change: The IRS does not have the authority under IRC section 6213(a) to accept an implied consent/or agreement to close cases and assess tax.

In 1990, the Service Center Underreporter functions began an initiative to increase acceptance of oral testimony. The concept was expanded in 1991 to include case closures with assessments based on implied consent (written contacts indicating agreement, but without jurat signatures) or oral (telephonic) agreements. These closures were limited to those cases with assessments of less than \$1,500.

The IRS Chief Counsel held that under IRC section 6213(b)(4), a signed waiver must be secured from the taxpayer. In 1996, the National Director, Service Center Compliance instructed the service centers not to accept implied consent/oral agreements to close cases. Since the inception of this deviation, Austin Service Center (AUSC) has monitored Audit Reconsideration, PRP, and Late Reply inventories to determine if any taxpayers have raised an objection to an oral agreement. During this six-year period, AUSC did not receive any request for abatement or refund of assessed taxes.

Proposed Change: Amend IRC section 6213 to allow the taxpayer the option of a telephonic waiver of restriction (agreement to an additional assessment) in those cases where the deficiency (not including penalty and interest) does not exceed \$1,500. Implementation of this change would reduce taxpayer burden by: eliminating an additional taxpayer contact by the IRS to secure formal signatures and reducing the time to close a case, thereby minimizing interest that would accrue. In addition, this change would increase administrative efficiency and result in a cost savings to the service centers.

20. Allow IRS To Use Electronic Means To Notify Taxpayers That Their Refunds Have Been Returned As Undeliverable

Current Law: The IRS, after a reasonable effort and lapse of time, may disclose taxpayer identity information to the press and other media for the purpose of notifying taxpayers who are entitled to tax refunds that the IRS has been unable to locate them to give them their refund. Current law restricts the IRS to disclosure of undeliverable refund information to "press or other media," thus not allowing for the use of advanced electronic technology.

Reason for Change: Every year many taxpayers move, do not give the IRS their new address, and thousands of refund checks are returned by the post office because they are undeliverable. In November of 1997, the IRS was still trying to contact 99,919 taxpayers

who did not receive their 1996 refund checks. These undeliverable refunds totaled more than \$62 million, an average of \$625 per check.

Under present procedures undeliverable refund lists are generated three times a year with the main refund list run at the end of September. These lists are broken down by IRS Districts and forwarded to Media Relations representatives in the Districts. Media Relations representatives then forward the lists to local newspapers for publication.

This process is “hit or miss” because most of the larger circulation newspapers do not print the lists, and if a taxpayer has moved regionally or nationally, they will not see the lists printed in their former communities. In addition, the IRS is unable to contact taxpayers internationally.

Reason for Change: When the current law was passed, the press and other traditional media were the only means available for the IRS to distribute undeliverable refund information economically to the public. Since that time, technology has advanced and the IRS can distribute information economically to a world wide audience over the Internet. In addition to the existing process, IRS is proposing to use their Internet site to distribute undeliverable refund information directly to the public. Use of the IRS web site will have the following advantages:

- IRS will be able to reach millions of additional taxpayers worldwide. The IRS internet website recorded more than 300,000,000 hits during the 1997 filing season (Jan through April 1998).
- IRS will be able to reach taxpayers that have moved out of the circulation area of local newspapers and give taxpayers one central location to check for undeliverable refund information.
- IRS will be able to develop an interactive application that will allow taxpayers to search a data base using name, city, state, or zip code. The IRS web site will have the exact same information currently printed in newspapers.
- IRS will be able to have a change of address form available for taxpayers to download in the same location as the undeliverable refund information.

Proposed Change: Amend Internal Revenue Code section 6103(m)(1) to extend disclosure of undeliverable refund information by the IRS directly to the public via the Internet without being limited to newspapers and other public announcements. The development of an undeliverable refund application on the Internet site will bring a higher level of service to taxpayers, reduce taxpayer burden, and ensure that more taxpayers receive their money back thus increasing confidence in tax administration.

I.R.C. section 6103(m)(1) as revised:

The Secretary may make public taxpayer identify information for purposes of notifying persons entitled to tax refunds when the Secretary, after reasonable effort and lapse of time, has been unable to locate such persons.

EQUITY & FAIRNESS PROPOSALS

21. Amend IRC section 32(c)(1)(C) to Permit the EITC to Taxpayers Who Reside with Other Eligible Adults

Current Law: IRC section 32(c)(1)(C) states that If two or more individuals would be treated as eligible individuals with respect to the same **qualifying child** for taxable years beginning in the same calendar year, only the individual with the highest Modified Adjusted Gross Income for such taxable years will be treated as an eligible individual with respect to such qualifying child. The term "eligible individual" (*defined in IRC section 32(c)(1)(A)(i)*) means any individual who has a **qualifying child** for the taxable year.

A **qualifying child** is defined in IRC section 32(c)(3) as an individual (1) under age of 19 unless the individual is a student (as defined in IRC section 151(c)(4)) who has not attained the age of 24 or is permanently and totally disabled (as defined in IRC section 22(e)(3)), (2) who is a son or daughter of the taxpayer, or a descendant of the taxpayer, a stepson or stepdaughter of the taxpayer, or an eligible foster child of the taxpayer. (3) the qualifying child (*other than eligible foster child*) must share the same principal place of abode as the taxpayer for more than one-half of the taxable year. The term "eligible foster child" means an individual who is **not** a son or daughter, descendant, stepson or stepdaughter of the taxpayer. Additionally, the taxpayer cares for the child as the taxpayer's own child and has the same principal place of abode as the taxpayer for the taxpayer's entire taxable year.

Section 6021 of the IRS Restructuring and Reform Act of 1998 (RRA '98) contains an "Amendment Related to the Revenue Reconciliation Act of 1990" that amends IRC section 32. This change removed the identification requirement of qualified children from the definition of eligible individuals and qualifying children. [**Formerly IRC section 32(c)(3)(A)(i-v)**] Instead the identification requirements are a prerequisite for claiming the EITC.

Reason for Change: The application of the provision would permit the IRS to deny the credit to an otherwise eligible parent of a child who shares expenses with a person with a higher Modified Adjusted Gross Income even if the person with the higher Modified Adjusted Gross Income did not identify the child on his return. We believe that these provisions should only be applicable when the child is a blood relative or legal charge of **both** otherwise eligible individuals and the child is identified on both tax returns. In LeStrange V. Commissioner, T.C. Memo. 1997-428, the Tax Court held that the provisions of IRC section 32(c)(1)(C) are only operative in those circumstances where both otherwise eligible individuals identify the qualifying child on their individual returns.

The application of IRC section 6021 of RRA '98 would negatively impact the otherwise

eligible parent of a child who shares expenses with a person with a higher modified Adjusted Gross Income.

Proposed Change: Amend IRC section 32(c)(1)(C) so that the EITC is not denied to taxpayers /parents (with qualified children) who would otherwise be entitled to the credit, merely because they share household expenses with another adult who could claim the credit, if the person with the higher Modified Adjusted Gross Income did not identify the child on his return. Additionally, this should only apply if the child is a blood relative or legal charge of the other adult. This would eliminate an “eligible foster child” from the definition of a qualified child when applying this section.

22. Eliminate the Age Requirement for Taxpayers to Qualify for the EITC [IRC section 32(c)(1)(A)(II)]

Current Law: IRC section 32(c)(1) defines “Eligible Individual” for claiming the EITC. The term “eligible individual” means (1) any individual who has a qualifying child for the taxable year, **or** (2) any other individual who does not have a qualifying child for the taxable year, if the individual lives in the United States for more than one-half of the taxable year **and** the individual has attained age 25 but not attained age 65 before the close of the taxable year (IRC section 32(c)(1)(A)(II)). Additionally the individual may not be a dependent for whom a deduction is allowable under IRC section 151 to another taxpayer for the taxable year.

Reason for Change: This is inequitable to taxpayers who are under 25 and over 64 with no dependents whose income is within the range for EITC (under \$ 9,770 for 1997 with a maximum credit of \$332 available). Not allowing the EITC to taxpayers under age 25 who are independent (*They do not receive funds from their family.*) is especially unfair. These persons (between 19 -24 years old) are not eligible to be claimed as dependents because they are not full-time students.

Proposed Change: Amend IRC section 32(c)(1)(A)(II) to allow taxpayers under the age of 25 to qualify for EITC if they meet the other qualifications found in IRC section 32 and amend IRC section 32(c)(1)(A)(II) to allow taxpayers over 64 to claim the credit if they do not receive Social Security Benefits.

23. Deduction for Repayment of Income Previously Reported [IRC section 1341]

Current Law: IRC section 1341 provides that individual income tax filers who repay amounts previously reported as taxable income must deduct this repayment as an itemized deduction on Form 1040, Schedule A in most cases.

Reason for Change: If the taxpayer does not qualify to itemize deductions on Schedule A, the deduction is lost. The problems created by this law are inequity and increased taxpayer burden. Most taxpayers use the cash basis of accounting. This method requires

that an amount be reported as income when it is received and the amount paid back is deducted in the year it was repaid. Taxpayers have already paid tax on income that was later determined not to be income. Current law does not provide an avenue to claim credit for these taxes paid in error. Taxpayers are penalized for reporting too much income on their original returns.

Proposed Change: (1) Change the law to allow taxpayers to amend their tax return that originally included the income or (2) Change the IRC to allow taxpayers to take the repayment as an adjustment to income on the face of Form 1040, rather than as an itemized deduction, in the year of repayment.

24. Allow Moving Expenses as a Deduction from Gross Income Without Having to Itemize [IRC section 217]

Current Law: IRC section 217 allows as a deduction moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee or as a self-employed individual at a new principal place of work. IRC section 211 allows moving expenses as a deduction when computing taxable income (IRC section 63).

Reason for Change: Current treatment of moving expenses is inequitable to taxpayers who do not itemize deductions. These taxpayers incur legitimate moving expenses but do not receive the tax benefit of being able to deduct them.

Proposed Change: Amend IRC section 217 to allow moving expenses as a deduction from gross income (without having to itemize).

25. Allow Taxpayers to Receive Refunds of Prepaid Credits on Late Filed Returns [IRC section 6511]

Current Law: IRC section 6511, Period of Limitation on Filing a Claim, requires that a claim for credit or refund of an overpayment must be filed by the taxpayer within 3 years from the time the return was filed or 2 years from the time the tax was paid whichever of such periods expires later. If no return was filed by the taxpayer, the claim for refund must be made within 2 years from the time the tax was paid. The application of this section prevents taxpayers from receiving refunds or offsets of overpayments of prepaid credits from late filed returns unless these returns are filed within the two-year statute period. When a late filed return is received past the statute date, the taxpayer is allowed to take the prepaid credits against the tax liability and the remaining credits are removed from the account.

Reason for Change: Changing this section will benefit taxpayers by allowing prior refunds or overpayments to offset to current balance due accounts. The argument could be made that the reason for having the statute is to encourage voluntary compliance and timely filing

of returns. Taxpayers would not have adequate incentive to file timely if there were no refund restrictions. However, many taxpayers are not aware of the statute provisions. Their reasons for not filing timely vary from negligence or errors on their part or on the part of a third party, to possible emotional stress from some traumatic event in their life.

During the IRS' well-publicized non-filer program, which encouraged taxpayers to file past due returns, many taxpayers filed multiple past due returns, some with refunds that were not credited due to the expiration of the statute of limitations for filing a claim for refund. These taxpayers were not aware of this statute of limitations provision and expected that their refunds would be applied to other liabilities. This resulted in significant taxpayer frustration and negative perceptions regarding a well-intended process. This provision would serve as an incentive rather than a disincentive for taxpayers with past due returns, some of which may contain overpayments of tax credits.

Proposed Change: Two alternative proposals are:

- (1) Amend IRC section 6511 to read "Claims for credit or refund of an overpayment of any tax will be allowed whenever a return is filed by the taxpayer." No interest should be allowed on the refunds and any overpayment should be credited as of the date the delinquent return is filed.
- (2) Allow offsets from an otherwise closed year only to certain balance due accounts for the same taxpayer. Offsets would be permitted only to returns due during the period when a credit or refund from the closed year would have been allowable under existing law.

26. Allow Reversals of Estimated Payments That Were Elected to Apply for a Succeeding Tax Year [IRC Section 6513(d)]

Current Law: IRC section 6513(d) and Revenue Ruling 77-339 provides that once an overpayment is applied as a credit-elect to the estimated tax for the succeeding year, it cannot be offset against any additional tax subsequently determined for the year of the overpayment. The law allows for reversal of the credit elect only under specific criteria (e.g., IRS error or hardship) and it must be made prior to March 1 of the succeeding year even if a return for that year has not posted.

Reason for Change: Taxpayers filing amended returns for the credit elect year, prior to filing the succeeding year's return, which results in a balance due are not permitted to apply their credit elect for that year to the amount owed. The taxpayer must pay a penalty and interest on the balance due even though the money held by the IRS is available and could be applied if the law allowed.

Proposed Change: Amend section 6513(d) to allow the reversal of a credit elect for estimated tax payments prior to the due date with extensions for the succeeding year provided no return has posted. This credit should be available to pay any additional

assessment on the overpayment year as of the due date of the return, the same date used to credit it to the next year as a credit elect. The request for this reversal should be made in writing with the understanding that the credit will not be available to be used as the first estimated tax payment for the succeeding year.

27. Allow an Overpayment Credit to Be Applied to Other Liabilities as of the Same Date That the Credit Would Have Been Applied to Tax on the Overpaid Return. [IRC Sections 6601 and 6611]

Current Law: IRC section 6601(f) states that if any portion of a tax is satisfied by an overpayment, then no interest shall be imposed on the portion of the tax satisfied during the period that interest would have been allowed on the overpayment of tax had it not been applied.

Section 6611(b)(3) provides that for a tax return filed after the last date prescribed for filing such return (including extensions), no interest shall be allowed or paid for any day before the date on which the return is filed. Therefore, when a taxpayer files a delinquent return with an overpayment of credits, the credits will be credited to another tax period as of the date the delinquent return is received.

Reason for Change: Most overpaid delinquent returns are prepaid by withholding, estimated tax, deposits or other credits paid or deemed paid prior to the filing of the related return. The Treasury generally has possession of the funds prior to the return filing date. These amounts are applied to the liability for which they were originally designated as timely payments, unless actually received later. Penalties and interest imposed for balances owed for the later periods are perceived as inconsistent and unfair since there is a widespread perception that there is no penalty for the late filing of a refund return.

Proposed Change: Amend IRC section 6601 to allow an overpayment credit (or portion thereof) to be applied to other liabilities as of the same date that the credit would have been applied to tax on the overpaid return.

28. Change the Refund Statute Laws to Allow Refunds of All Money Paid to IRS if the Trust Fund Recovery Penalty Assessment is Later Determined to Be Invalid [IRC section 6511(a)]

Current Law: IRC section 6511(a) provides that the statutory period to file a claim for refund, claim for credit, or refund of an overpayment of any tax imposed is allowed for the refund of payments within two years from the date of payment.

IRC section 6511(a) states a "Claim for credit or refund of an overpayment of any tax imposed by this title in respect of which tax the taxpayer is required to file a return shall be filed by the taxpayer within three years from the time the return was filed or two years from the time the tax was paid, whichever of such periods expires the later, or if no return was

filed by the taxpayer, with two years form the time the tax was paid.”

Reasons for Change: If a taxpayer was assessed a Trust Fund Recovery Penalty and made payments over multiple years and the IRS later reviewed their determination and reversed the assessment in full, the taxpayer would only be allowed a refund of the funds paid during the preceding two years.

There are three specific situations that can result in a refund of payments made on a Trust Fund Recovery Penalty. They are:

- (1) Corporation in Bankruptcy – If a corporation is in bankruptcy, that case could remain open for many years, with the corporation making payments on the delinquent tax. These payments may eventually affect the balance of Trust Fund taxes due. Meanwhile, the responsible officer(s) are assessed the Trust Fund Recovery Penalty and may make payments including refund offsets from their individual income tax returns. Situations could arise where the corporate trust fund payments would result in a full or partial abatement of the Trust Fund Recovery Penalty. The refund statute prevents the officer(s) from receiving a refund of any payments made prior to the two years from the date of the refund claim. The excess payments are transferred to excess collection.
- (2) Corporation and officer(s) in Bankruptcy simultaneously – The situation stated above would also be applicable here. The officer(s) bankruptcy is normally closed prior to that of the corporation.
- (3) Officer(s) in Bankruptcy – The situation stated above would also apply when only the officer(s) applied for protection under the bankruptcy laws. Credits on the officer’s account would be restricted while the bankruptcy case is active.

The South Florida District Taxpayer Advocate’s Office was contacted by a taxpayer regarding the liability of the Trust Fund Recovery Penalty. She had requested assistance in determining if she were truly liable for the penalty and requested a refund of the money paid. The Taxpayer Advocate’s Office caseworker with the cooperation of a Special Procedure Advisor secured the assessment document and after reconsideration of the facts and circumstances, it was determined that she was not liable for the assessment. Unfortunately, payments had been made over several years and the Taxpayer Advocate was only able to refund the funds paid within the last two years due to the provisions of IRC Section 6511(a). The result is that the Service received funds for an assessment determined to be incorrect.

Proposed Change: Change IRC section 6511(a) to allow refunds of all money paid to IRS if the Trust Fund Recovery Penalty assessment is later determined to be invalid.

29. Abate Interest Attributable to Unreasonable Errors and Delays by Internal

Revenue Service [IRC section 6404(e)]

Current Law: IRC section 6404(e)(1), under Abatement of Interest Attributable to Unreasonable Errors and Delays by Internal Revenue Service, states that the Secretary may abate the assessment of all or part of interest attributable in whole or part to unreasonable error or delay by an officer or employee of the IRS in performing a ministerial or managerial act. The application of these provisions and the narrow definitions of ministerial and managerial act in the regulations prevents the IRS from addressing situations where considerations of equity and fair tax administration require the abatement of all or part of the assessed interest.

Reason for Change: Interest abatement issues have continually plagued taxpayers and the Service. A significant portion of the cases worked in the Problem Resolution Program over the last twenty years have involved interest abatement issues and the problem has surfaced as one of the major Problem Solving Day issues as well. Prior to 1986, the Service was allowed to make few adjustments to interest assessments absent an assessment in error. The Tax Reform Act of 1986 provided for the abatement of interest attributable to unreasonable delays and errors by the Service for certain “ministerial acts” in instances “where the failure to abate would be widely perceived as grossly unfair.” Determining what constituted a “ministerial act” for purposes of the statute and its implementing regulations was confusing for Service personnel and for the taxpayer. Accordingly, interest was rarely abated under the “ministerial act” provision of the statute, unless the taxpayer’s specific situation mirrored one of the examples provided in the applicable regulations.

With the passage of TBOR2 an additional basis for abatement of interest was added to IRC section 6404. Assessed interest which is attributable to unreasonable error or delay by the Service for certain “managerial acts” can also be abated. The proposed regulations defining “managerial acts”, however, are very limited in scope and relief continues to be unavailable for certain taxpayers where it is undisputed that the interests of fairness and efficient tax administration would be better served by the abatement of specific interest accruals.

Legislative History: In the Tax Reform Act of 1986, Congress recognized that the Internal Revenue Service did not have the authority to abate interest where the additional assessment was caused by IRS errors or delays. Interest was considered a mathematical computation and was only reduced when the underlying deficiency was reduced. When the ministerial act provisions were drafted, they emphasized that this provision was not intend to be used routinely to avoid paying interest. The Senate amendment to the bill added the provision that no significant aspect of the delay can be attributable to the taxpayer and the provision applies only to failures that occur after the IRS has contacted the taxpayer.

In 1991, notes from the Subcommittee on Oversight of the Committee on Ways and Means

criticized the provisions of 6404(e) as being limited in scope by the definition of ministerial act by the IRS. They also stated that the regulations “were so narrowly written and tightly administered that nearly all IRS delays are excluded from relief.” They cited as examples, IRS personnel transfers and the loss of records before any tax was assessed.

TBOR2 expanded the authority to abate interest to include delays caused by managerial acts of the IRS. It specifically excludes general administrative decisions. No other changes were made to the original provisions. 6404(e)(1) still requires that the error or delay must be after the taxpayer is informed of the deficiency and the delay cannot be attributable to the taxpayer. The impact of the changes made by TBOR2 have proven to be minimal.

Proposed Change: Amend IRC section 6404(e) by renaming subsection (e)(2) as (e)(3) and adding the following new subsection:

6404(e)(2) Exception, --Notwithstanding any provision of paragraph (e)(1), the Secretary may abate any assessment of interest or portion thereof, attributable to unreasonable error or delay, where the Secretary determines that the failure to abate such assessment is not in the best interest of the taxpayer or the United States.

30. Redefine “Household” for Head of Household Filing Status [IRC section 2(b)]

Current Law: A taxpayer may file using head of household rates found in IRC section 1(b) if he or she meets the qualifications found in IRC section 2(b). A taxpayer may use the head of household filing status if he or she is not married at the close of the taxable year and maintains as his or her home **a household** for more than half the year for a son, daughter, stepson or stepdaughter or descendant of a son or daughter of the taxpayer (IRC 2(b)(1)(A)(i)).

If the son, stepson, daughter, stepdaughter is married at the close of the taxable year, the taxpayer may use head of household filing status only if the taxpayer is entitled to a deduction for the taxable year for the person under IRC section 151 (Exemption for Dependents) (IRC 2(b)(1)(A)(i)).

Additionally, a taxpayer may use the head of household filing status if he or she **maintains a household** for any other person who is a **dependent of the taxpayer** (IRC section 2(b)(1)(A)(ii)).

Finally, a taxpayer may use the head of household filing status, if he or she maintains a household which constitutes for the taxable year the principal place of residence of the father or mother of the taxpayer, if the taxpayer is entitled to a **deduction for the taxable year for such father or mother under IRC section 151** (IRC section 2(b)(1)(B)). For purposes of this paragraph, an individual is considered as **maintaining a household** only if over half the cost of maintaining the household during the taxable year is furnished by such individual.

An individual is considered as maintaining a household only if he or she furnishes over half the cost of the household [Treasury Regulation 1.2-2(d)]. Various court cases have addressed the issue of determining what constitutes a household and cited the above Treasury Regulation. Cases have been settled both in favor of and against taxpayers filing as head of household depending on specific facts and circumstances of the case.

This issue was elevated to the NTA's office from the Citizens Advocacy Panel in the North Florida District. Based on current law and regulations a taxpayer was not allowed to use the head of household filing status because he did not establish that he maintained a household for his child. The taxpayer and his child rent a room in the taxpayer's mother's home. In David E. Jackson V. Commissioner, T.C. Memo 1996-54, the taxpayer rented a room in an apartment "owned" by his mother. The court held that the taxpayer failed to satisfy the head of household requirements. The court held that the one room used by the taxpayer without use of the kitchen or the telephone does not constitute a household. In Estate of Jean Foster Fleming. Citizens Fidelity Bank and Trust Company, Executor V. Commissioner, T.C. Memo 1974-137, the taxpayer was allowed to use the head of household filing status. The taxpayer occupied a portion of the home with her dependent daughter and another daughter and her husband. She had a separate telephone and other bills. The court stated that, "Because of the statute here under consideration and lack of precise meaning for the word "household" used therein, we consider it proper to give the statute the most favorable reasonable construction to support petitioners' right to compute his [her] tax as head of household. [Robinson, supra at 539] ... "We reemphasize the point in our prior discussion that a taxpayer's household is not determined by physical boundaries but by all the facts of the case. *Laraia v. United States* [64-1]."

Reason for Change: The current definition of household is subjective in its application and has been inconsistently applied. Additionally, it does not fit today's family structure and household type. Many taxpayers who maintain a home for their children are not permitted to claim head of household simply because they either share household expenses with another adult who also qualifies for head of household (i.e., two unmarried women with children who divide the rent and utilities) or pay rent for a room in a family member's home (i.e., a son with a child who pays rent for a room from his mother).

Without a clear definition of household that encompasses these types of households, many taxpayers are unfairly being denied the benefit of using the head of household filing status. This is contrary to the congressional intent of the law. The head of household filing status was created in the 1950's to provide assistance to single parents and others who care for children.

Proposed Change: Redefine "household" to encompass a room in a shared residence and other non-traditional households. This will require the elimination of the current "over half the cost of the household" standard. A new standard should be developed by looking at the family units living within a residence (apartment, house, or other type of residence). When looking at the family unit, a parent and the children he or she rears, should be considered independent of other unrelated persons or family members in the residence (i.e.,

In the case of a father with his young son renting a room in his mother's house, the father and the son would be a separate unit from the mother and any of her dependents).

31. Repeal IRC section 6404(b)

Current Law: IRC sections 6404(a) and (b) have conflicting procedures. Subsection (a) authorizes abatements of the unpaid portion of the assessment of any tax or any liability in respect to that tax which is excessive, is erroneous or illegal or is assessed after expiration of the applicable period of limitation; but subsection (b) states that **no claim** for abatement shall be filed by a taxpayer in respect of an assessment of Income, Estate, and Gift Taxes. The implication is that the IRS may abate tax on its own initiative, but that taxpayers cannot request us to adjust their tax. IRS offices routinely process claims for abatement of tax and IRS manuals have procedures for processing claims filed within the statute of limitation for reducing tax without requiring that the tax be paid. Sections 6404 (a) and (b) were both parts of the 1954 Code.

Reason for Change: At one time, we insisted that taxpayers pay the amount owed prior to filing a claim for reduction of tax. The 1993 procedures for the Reconsideration of Deficiency Assessments reinforced the change in the audit reconsideration process by providing the taxpayer with the opportunity to present information that was not previously taken into consideration. However, IRC section 6404(b) is often used to deny timely filed amended returns.

Proposed Change: Repeal of IRC section 6404(b).

32. Allow Taxpayers to Get A Return of Levied Property During the Two-Year Period From the Date of the Levy [IRC section 6343(d)]

Current Law: IRC section 6343(b) was added to the law by the Federal Tax Lien Act of 1966. It amended IRC section 6343 (relating to the authority to release levy) to allow for the return of property where the Secretary determines the property has been wrongfully levied upon. Property may be returned anytime; however the return of money levied upon or received from the sale of property may only be returned within 9 months from the date of the levy. Legislative history suggests that the purpose for the 9-month period is to encourage third parties who claim an interest in the property seized to take prompt action to recover their property. If the IRS seizes property under the belief that it belongs to the taxpayer, collection action may be ended because the liability is satisfied. However later the IRS may find that under the law the money must be returned.

The same 9-month limitation mandated by IRC section 6343(b) applies to IRC section 6343(d). IRC section 6343(d) which allows for the return of property in certain cases was added to the IRC as part of TBOR2. These "certain cases" include four situations where any property levied upon may be returned to the taxpayer if the Secretary determines that the return is proper under the law. This section further refers to prior law IRC section

6343(b) for the provisions stating “the provisions of section (b) shall apply in the same manner as if such property had been wrongfully levied upon.”

Reason for Change: While there are situations where the IRS wrongfully levies a third party and the levy is not discovered within the 9-month period for refund under IRC section 6343(b), anecdotal information suggests that these do not occur frequently. We are seeing more taxpayers affected by this 9-month limitation under the provision of IRC section 6343(d) that states “*the levy on such property was premature or otherwise not in accordance with administrative procedures of the Secretary.*”

A recent Chief Counsel opinion and a Significant Service Advisory on the termination of installment agreements and subsequent levy/seizure actions because the taxpayer would not sign an extension of statute heightened, the awareness of the 9-month limitation. The IRS was not able to address defaulted agreements where the action was more than 9 months old when it was determined that we were handling these agreements improperly. Other taxpayers impacted by the Counsel opinion were able to receive refunds of payments made for the prior two years, under IRC section 6511(a), because their payments were considered overpayments because of the improper statute extension and did not involve levy or seizure action.

Recent reviews of open and closed seizure cases also identified situations where administrative procedures were not followed prior to the seizure and sale; however, any possibility of returning money was barred by the 9-month limitation. The 9-month period appears to be an arbitrary number of months which can result in inequitable treatment of taxpayers.

Proposed Change: Change the wording in IRC section 6343(d) to “the provision of subsection (b) shall apply in the same manner as if such property had been wrongly levied with the following exceptions:

- an amount equal to the amount of money levied upon or received from such sale may be returned at any time before the expiration of 2 years from the date of such levy
- no interest shall be allowed under subsection (c) .

33. Amend IRC section 6651 to Waive the Failure to Pay (FTP) Penalty When an Approved Installment Agreement is in Effect

Current Law: The RRA ‘98, modified IRC 6651 by adding IRC section 6651(h) which provides for a lowering of the FTP penalty for certain taxpayers who have entered into and are meeting the terms of an installment agreement. For individuals, the penalty amount for failure to pay is reduced to .25 percent for any month in which an installment agreement is in effect. The provision is not effective until January 1, 1999. All other provisions of IRC Section 6651 remain in effect.

Reason for Change: The provisions in RRA '98 do not go far enough in providing an incentive for taxpayers to pay tax by an installment agreement when unable to fully pay the tax when due. The number of defaulted installment agreement remains extremely high. A June 1998 GAO report, noted that in FY 1997, \$6.5 billion defaulted in installment agreement accounts, roughly the same amount that was collected through that method.

Furthermore, the current law, as amended, does not apply to installment agreements once the 1% rate is triggered as provided for under IRC 6651(d). Instances may occur to trigger the higher penalty charge in IRC section 6651(d) in which the taxpayer has no control. For example, taxpayers may not receive earlier notices timely, if at all. Others may contact the IRS in response to a notice and are placed in final notice status in order to be transferred to collection personnel because of the size or type of account involved. They too, are precluded from benefitting from this limitation.

Proposed Change: Waive FTP penalty for any month in which an installment agreement is in effect. The failure to pay penalty will be reinstated for the entire period, however, if the taxpayer were to default the installment agreement prior to completing the terms of the agreement.

34. Amend IRC section 6702 (Frivolous Income Tax Return) to Permit Reasonable Cause Penalty Relief to Appropriate Cases

Current Law: IRC section 6702 provides for an immediate assessment of a \$500 civil penalty against individuals who file frivolous income tax returns or frivolous amended income tax returns or claims. The penalty is not based on the tax liability. A frivolous return may be a valid or invalid return. The intent of the law is to reduce or eliminate returns with altered line items or that clearly claims unallowable deductions or credits based on a frivolous position.

Reasonable cause does not apply. For penalty relief, taxpayers must seek judicial review after first paying the entire penalty.

Reason for Change: Persons filing a blank return or who make a return with a frivolous position were often labeled as "Illegal Tax Protestors" by the IRS in addition to the imposition of the penalty. The RRA 1998 (Section 3707) identified a concern that these designations may affect innocent or subsequently reformed taxpayers. As such, the IRS is no longer permitted to designate taxpayers as illegal tax protestors.

Furthermore, during Problem Solving Days and other contacts, we have become aware of a number of instances in which a taxpayer had been "duped" into filing a frivolous return by another individual or promoter. Later, after realizing their mistake they filed and paid the tax, moreover, establishing a good track record with respect to taxes. Because of the current law, these individuals are unable to assert reasonable cause as an administrative remedy in seeking penalty relief.

In addition, the current \$500 penalty provides an insufficient deterrent to those who purposefully file frivolous tax returns or documents. The penalty amount has not changed since 1982. Therefore, we recommend that the penalty amount be raised to \$1,500 and that, in light of the higher amount, the taxpayer receive a pre-penalty notification prior to the assertion of the penalty to afford the taxpayer an opportunity to reconsider such action.

Proposed Change: Add: “....unless such failure is due to reasonable cause.” Change: “\$500” to “\$1,500”.

35. Expand the Statute Expiration Date When a Delay Was Caused by Another Government Agency [IRC sections 6511 and 6514(a)]

Current Law: IRC section 6511(a) states that a claim for credit or refund of an overpayment shall be filed by a taxpayer within three years from the time the return was filed or within two years from the time the tax was paid, whichever is later. Section 6514 (a) further states that a refund of any portion of a tax is erroneous and a credit for such portion is void unless the claim for that refund is timely.

Reason for Change: A taxpayer may mistakenly file a timely claim for refund with a government agency that administers the fund financed by the taxes in question. The proceeding at the other agency may not be resolved until after the IRC statute expires. When the taxpayer is successful and asks for a refund, the agency advises that a claim must be filed with the IRS. Although one can argue that the taxpayer should have filed a protective claim with the IRS, few of the IRS’s own employees are aware of these procedures. The taxpayer is acting in good faith that the government will handle all parts of the issue.

A specific case brought to the attention of the NTA involved a taxpayer who was self-employed outside the United States for tax years 1976 through 1982. During this period, he was assessed self-employment tax on his earnings. In 1983, the taxpayer initiated an appeal with the Social Security Administration to recover the self-employment tax since his earnings were all outside the United States and were not subject to self-employment tax because of a treaty with Sweden. The issue was finally resolved in the taxpayer’s favor on November 9, 1988. Then, he was referred to the IRS to apply for the refund. However, the statute of limitations had expired for claiming a refund. The taxpayer could not be expected to know that Social Security’s administration of its program does not include refunding monies erroneously paid into that program. He is now faced with having no social security credits for 1976 through 1982 and no way to recover the money he erroneously paid.

Proposed Change: Expand IRC sections 6511(a) and 6514(a) to include an extension of the statute for refund claims in cases where the taxpayer dealt with another government agency to secure the refund. This statute would expire one year after the determination

is made by the other agency on the taxpayer's claim. The legislation should also give the Secretary the authority to prescribe regulations because contingency issues could arise in areas where there is no current problem.

HARDSHIP PROPOSALS

36. Allow for Refunds to Bypass Offsets to Other IRS Liabilities in Hardship Situations [IRC section 6402(a)]

Current Law: IRC section 6402(a) states that the Secretary may credit overpayments against any internal revenue tax liability. It is Chief Counsel's opinion that the Service may bypass a refund offset under section 6402(a) only if the action is initiated prior to the assessment date of the return creating the overpayment.

Reason for Change: Section 6402 provides a method for offsetting tax overpayments to outstanding and overdue debts to the IRS. The principle of offsetting overpayments to debts is logical; however, when applied mechanically regardless of circumstances, the IRS can become indifferent to the needs of its customers. The provisions of this section need a modification which would enable the IRS to bypass offsets in certain rare instances when the taxpayer is experiencing a significant hardship. .

Proposed Change: Amend IRC section 6402 to allow for the bypass of a refund offset under section 6402(a) when it is determined that the taxpayer is experiencing a significant hardship.

37. Allow for Refunds to Bypass Offsets to Debts to Other Government Agencies in Hardship Situations [IRC sections 6402(c) and (d)]

Current Law: IRC section 6402(a) states that the Secretary may credit overpayments against any Federal tax liability. However, section 6402(c), Offset of Past Due Support Against Overpayments, and section 6402(d), Collection of Debts Owed to Federal Agencies, state that the Secretary shall pay the amount owed, in the order of (c) then (d), after offsetting against any Federal tax liability. It is Chief Counsel's opinion that the Service may bypass a refund offset to Federal tax liabilities under section 6402(a) under limited circumstances but that it cannot bypass the refund under 6402(c) and (d).

Reason for Change: IRC section 6402 provides a method of offsetting tax overpayments to outstanding and overdue debts to other government agencies. The principle of offsetting debts is logical, however, when applied mechanically, regardless of circumstances, the IRS can become indifferent to the needs of its customers. The provisions of IRC sections 6402(c) and (d) need a modification which would enable the IRS to bypass offsets to government agencies in certain rare instances when hardship for the taxpayer warrants such action.

Proposed Change: Amend IRC section 6402 to allow for the bypass of a refund offset under sections 6402(c) and (d) when it is determined that the taxpayer is experiencing a significant hardship.

38. Exempt the Earned Income Credit (EITC) from Offsetting to Federal Tax and Debtor Master File (DMF) Liabilities [IRC section 6402(a)]

Current Law: IRC section 32(a) sets forth the allowance of a credit for eligible individuals. To be eligible, taxpayers must be working/wage earning, low income, and have a qualifying child living with them. Congress originally enacted this to encourage low income families to stay employed rather than going on the welfare rolls. The law has been on the books since 1974. It has been amended and extended many times but the intent has remained the same, an economic incentive for the working poor.

IRC section 3507(a) sets forth the requirement that employers with employees eligible for the EITC shall, upon request by the employee, include the EITC amount at the time of paying the employee's wages. In other words, employees may, upon request, receive the EITC throughout the year rather than at the time of filing their tax return. Experience has shown that very few of those employees eligible receive the Advanced Earned Income Tax Credit (AEITC) even though it is available to them.

IRC sections 6402(a), (b), and (d) set forth the provision of law commonly known as the refund offset program. These sections give the authority/requirement that overpayment on a taxpayer's account will FIRST be credited to any past due taxes of that taxpayer, next to estimated income taxes, and then to any past due child support which has been certified to the Secretary by that federal agency. If any overpayment exists after the application of these sections, a refund will be issued to the taxpayer. This section of the IRC has been in effect for several years. It too has been amended and extended several times. Initially, the Congressional intent of this provision was the collection of past due child support.

Reason for Change: Congress has set forth a provision allowing the EITC as an economic incentive for the working poor to remain employed. They have also directed the interception of any overpayments (refunds) including the Earned Income Tax Credit, when the taxpayer has an open Federal tax debt or a liability such as delinquent child support on the Debtor Master File. Herein lies the clash of two competing social policies -- the economic incentive for the working poor versus the collection of past due child support and other Federal debts.

The refund offset program is a backup collection tool, which, by its very nature results in unequal treatment of taxpayers i.e., a taxpayer may avoid the refund offset provision by simply adjusting his or her withholding so that no overpayments exist when the tax return is filed. Also, Congress directed the interception of ANY overpayment available including the EITC. In addition, a qualified taxpayer who elects to receive the AEITC will receive that credit throughout the year, thus avoiding the refund offset provision of the IRC.. This creates inequitable treatment of taxpayers in similar positions since the taxpayer that does

not take the AEITC is penalized by having their refund offset to other debts. It also undermines the intent of the EITC as an incentive for the working poor to remain employed since they receive no benefit from the credit.

Proposed Change: Amend IRC section 6402(a) to exempt the EITC from offset.

39. Waive the 10% Addition to Tax for Early Withdrawal from an IRA or Other Qualified Plan in Cases of Hardship [IRC section 72t]

Current Law: IRC section 72(t) imposes a 10% addition to tax for early withdrawals from an IRA or other qualified plan. This is a tax (not a penalty) - and as such, there is no provision for a waiver. IRC section 402(f)(1) requires that the plan administrator, when making an eligible rollover distribution, provide a written explanation to the recipient. Section 6652(h) imposes a penalty of \$10 for each failure to furnish the required statement, up to a maximum of \$5,000.

Reason for Change: The plan administrator's failure to furnish the required statement to the recipient of an eligible rollover distribution can result in the taxpayer being liable for thousands of dollars in additional tax, yet the penalty to the administrator is only \$10 per failure (maximum of \$5,000). In a particular case that came to the attention of the NTA's office, when a company went out of business, about 500 employees received distributions that were eligible for rollover and none of them received the required statement from the administrator. Many of these taxpayers were unemployed and could not afford the 10% additional tax imposed on the distribution, yet the Service does not have the authority to waive the tax.

Proposed Change: Amend IRC section 72(t) to allow the Secretary authority to waive the 10% additional tax when it can be documented that the plan administrator failed to furnish the required statement to the taxpayer.

OTHER NATIONAL TAXPAYER ADVOCATE ACTIVITIES

Problem Solving Days

IRS initiated the Problem Solving Days (PSD) initiative in November, 1997, as a result of the Senate Finance Committee oversight hearings held in September, 1997. Several taxpayers testified about problems that they had experienced in their dealings with IRS. National PSDs provided the opportunity for taxpayers to have face to face contact with an IRS employee who could assist them in resolving problems with the IRS.

The first PSDs were held on November 15, 1997, and approximately 6,300 taxpayers attended . IRS continued to hold monthly events (frequently on Saturdays, evenings, as well as week days) at all district offices throughout FY 1998. Overall, about 35,000 taxpayers have attended PSDs from November, 1997 through September, 1998. IRS district offices plan and implement PSDs under the overall coordination of the National Taxpayer Advocate.

Customer satisfaction surveys and employee surveys are conducted at each PSD and an outside contractor provides monthly analysis reports. Follow-up telephone taxpayer surveys were also conducted in May and November, 1998. Survey results indicate:

- Taxpayers want to discuss their problems face to face with IRS staff;
- IRS staff like the cross-functional approach to assisting taxpayers, providing the technical expertise necessary to resolve problems, and
- Taxpayers like being able to make appointments and come in evenings and Saturdays.

PSDs are scheduled to occur monthly at every district office through April, 1999. These monthly schedules are published in a number of places including the INTERNET. PSDs are publicized in national and local newspapers, TV, radio and various trade publications. Public service announcements rather than paid advertising are the main type of advertising used.

A PSD handbook has been issued and scheduled to be updated in early 1999. The handbook provides procedures for PSDs for IRS field offices. All PSD cases are considered high priority cases and are subject to rigid PRP quality review standards.

Receipts for PSDs have steadily dropped since the first PSD in November, 1997. There is much speculation about the reason for the diminishing attendance — lack of interest, less publicity, fewer difficult problems — but there is no definitive answer to the question why fewer taxpayers are coming in. Typically, events held in headquarters offices are better attended than events in geographically dispersed Posts Of Duty (PODs). The taxpayers

are equally divided between walk-ins and appointments for PSDs. The most popular times for taxpayer visits are at lunchtime and immediately after work on week days and on Saturday mornings. The consensus is that taxpayers with difficult problems like to have face-to-face contact with IRS employees who have the proper skills to assist them. The greatest number of issues raised by taxpayers during PSD events involve problems or requests for information on:

- ▶ Audit reconsiderations;
- ▶ Offers-in-compromise;
- ▶ Installment agreements;
- ▶ General information requests;
- ▶ Penalty issues;
- ▶ Account and notice inquiries, and
- ▶ Unable to pay.

The ultimate goal for IRS is to provide better customer service by making “every day a problem solving day.” IRS is continuing to gather data to analyze the effectiveness of PSDs and determine the most effective way to deliver customer service to taxpayers. By incorporating changes in day-to-day operations, the IRS can improve the level of customer service in walk-in sites to emulate the service provided on Problem Solving Days. To best serve the interest of the taxpayers, there shouldn't be a disparity in service provided between “regular” days and “Problem Solving Days.”

Citizens Advocacy Panels

The mission of the Citizens Advocacy Panel (CAP) is to:

Provide citizen input into enhancing IRS customer service by identifying problems and making recommendations for improvement of local IRS systems and procedures;

Elevate the identified problems to the appropriate IRS official and monitor the progress to effect change, and

Refer individual taxpayers to the appropriate IRS office for assistance in resolving their problems.

One CAP was implemented in FY 1998 in the South Florida district. Three more CAPs will be started in the following districts during FY 1999: Brooklyn (including Brooklyn and Queens boroughs in New York City and the counties of Nassau and Queens on Long Island), Midwest (including the states of Wisconsin, Iowa and Nebraska), and Pacific-Northwest (including the states of Washington, Oregon, Alaska and Hawaii). The Pacific-Northwest CAP will have a focus on small business issues and include small business owners from the state of California. The IRS will assess the impact of these CAPs before deciding when and how to expand the program.

The CAP must comply with the Federal Advisory Committee Act (FACA). FACA ensures that advisory panels provide relevant, objective advice and are open to the public, act promptly to complete their work, and comply with reasonable cost controls and record-keeping requirements.

Panel members must be:

- Able to commit approximately 100 hours each year to the panel,

- Able to travel to attend meetings. (IRS reimburses travel costs),
United States citizens,

- Legal residents of the tax district the panel will serve, and

- Able to pass a tax check and an FBI check.

The process for selecting CAP members including applicants involves:

- Calling a toll-free number and pre-screened against a set of minimum criteria e.g., willingness to volunteer approximately 100 hours/year, willingness to undergo a FBI check and a tax check).

- Completing applications that will be reviewed against a set of skill/attribute criteria.

- Being interviewed either by telephone or in-person. (Interviews will be conducted with the top 50 applicants who met the minimum criteria.)

Based on the application and interviews, the top 20 applicants will be recommended to the Treasury Department . FBI and tax checks will be conducted for the top 20 applicants. The Secretary of the Treasury will make the final decision on panel membership.

The Treasury Department anticipates between 7 and 12 members for each CAP but is not prescribing a specified number of members or composition. The panels may include more than one tax practitioner. The exact number of members, however, will vary in order to ensure appropriate geographical and cultural representation on each panel and to achieve the optimal mix of skills and experience among members.

The activities that the CAP will undertake include holding public meetings, identifying and prioritizing issues by reviewing written correspondence from taxpayers, and reviewing recommendations for action from the IRS. The CAP will also prepare special reports, monitor local IRS effectiveness in serving customers and handling complaints, and make recommendations to improve service. CAP support staff will respond to calls from taxpayers via a toll-free telephone line.

CAP members are not authorized to receive returns or return information. The Internal Revenue Code provide rules governing the disclosure of tax returns and return information and provides penalties for unauthorized disclosure or inspection of such information. IRS employees may have access to individual taxpayer information, but only if it is for tax administration purposes and if they have a need to know.

The IRS and Treasury Department will work in partnership with the IRS CAP. This commitment includes:

- Providing fair, accurate, and timely responses to information requests;

- Coordinating closely with the panels to ensure meaningful input is received from the IRS and Treasury Department;

- Actively striving to reach consensus on issues and recommendations;

- Carefully considering all panel recommendations;

- Providing detailed explanations of decisions regarding panel recommendations, and

- Providing staff support of IRS employees to run the CAP office.

The CAP members will determine the frequency, location, and agenda of internal working meetings as well as open public meetings. Open public meetings will be held at least twice a year in various locations throughout the tax districts to solicit customer service issues, obtain information, identify taxpayer concerns, and solicit feedback on proposed panel recommendations for improvement.

The CAPs will be evaluated to assess how successful they are. Success will be defined by the panels themselves, in terms of how well they met their goals and objectives and how valued they feel their contributions have been. In addition, success will be defined by the IRS in terms of the return on investment in the panels and how well they have assisted in creating a better, more customer-driven IRS.

National Taxpayer Advocate Toll Free Number

The NTA has established a separate toll-free telephone number for Problem Resolution Program (PRP) cases. This new number (1-877-777-4778) was operational beginning November 1, 1998. The telephone service is provided in four sites, two (Richmond and Pittsburgh) during “normal” business hours and two (Atlanta and Fresno Service Centers) for “after hours” service. The sites are staffed with employees trained and equipped to effectively handle these sensitive calls.

Assistors in the PRP toll-free sites will handle calls and will provide one-stop, same-day

service, when possible, to ensure that the case is resolved the first time and does not have to be reopened. If the case cannot be resolved this way, the necessary actions will be taken to resolve the case without an additional contact by the taxpayer. A PRP case will be initiated through PROMIS, and the case will be transferred electronically to the appropriate office to be worked.

Senate Finance Committee

As a result of the Senate Finance Committee oversight hearings in September 1997, the IRS made a commitment to the Committee Chairman to establish a special project office to facilitate the processing of the large amount of correspondence received by the Committee. The commitment included having each taxpayer's inquiry provided with a "fresh", independent and objective review under the scrutiny of the NTA.

A project office was established in February 1998, an IRS executive and field Taxpayer Advocate personnel to resolve an initial 470 pieces of taxpayer correspondence. The project office reviews each piece of correspondence, identifies issues, and determines the appropriate location for each case to be worked and monitors the activity on every case through to resolution. Cases with unique or sensitive issues are retained and worked directly by the project office. Closing actions are reviewed by the project office to ensure the independent second look was provided and every issue is addressed.

The Committee continues to receive correspondence and telephone contacts from the public but at a reduced rate. To facilitate the processing of the inquiries to the congressional staff, a member of the project office has been formally detailed to assist the Committee screen correspondence in the Congressional Office which has resulted in significantly reducing the lapsed time for taxpayers to receive a response. During FY 1998, 3,370 receipts were received by the project office from the Senate Finance Committee. Additional receipts and contacts are being received at the rate of approximately 100 each month. While the open inventory levels are being reduced significantly, it has become apparent the remaining open cases are of a more complex and controversial nature. In-process time for the remaining open cases is increasing providing an indication of the complexity of the issues. Additional contacts are also being received by the Committee and the project office from taxpayers on closed cases where the IRS could not provide the relief requested because of legal or other limitations. Of these cases, 2,636 were closed by September 30, 1998 (the end of the fiscal year). The type of disposition for the cases is as follows:

Disposition Results FY 1998

	Volume	Percentage of closed cases
Total dispositions	2,636	100%

No change from previous determination	1,899	72%
Full change from previous position	397	15%
Partial change from previous position	340	13%

Utilizing the PRP Major Issue (MI) codes, the top ten issues associated with the Senate Finance Committee cases have been identified as follows:

Issue	Volume	Percentage of total cases
Audit reconsiderations	327	8.7%
Taxpayer treatment	292	8.3%
Levy Issues	235	7.0%
Other examination determinations	193	5.8%
Offers in Compromise	190	5.6%
FTD Penalty issues	154	4.6%
Account/Notice inquiry	143	4.6%
Technical requests	148	4.4%
Lien issues	143	4.2%
Other collection issues	120	3.6%

Each of the regions and the EOSCO have assembled teams to perform reviews of Senate Finance Committee closed cases to evaluate the quality and completeness of the Service's response to the taxpayers. The training of the teams has been conducted by the staff of the Chief, Operations Officer and they in turn will provide training to local teams to permit reviews on open and closed cases in the local offices.

Since the establishment of the new process for allegations against Criminal Investigation, 41 cases have been referred to the new Centralized Adjudication Unit (CAU). Tax issues raised in the correspondence in addition to the allegations are worked separately to ensure that taxpayers concerns are addressed timely. The results of these referrals have not yet been identified.

In concert with staff members of the Senate Finance Committee, a determination has been made to establish a permanent group within the NTA's Office to continue to work with the referrals. It is anticipated this will take place in FY 1999.

Taxpayer Equity Task Force

The Taxpayer Equity Task Force was chartered as an executive level task force designed to "recommend to the Taxpayer Advocate measures to further the interests of fairness in tax administration, balancing the need for equity in individual cases with the need for equity in relation to taxpayers as a whole." The Taxpayer Equity Task Force, led by an IRS Executive, is currently composed of 16 participants from National, Regional, District and Service Center offices. Currently, Chief Counsel, Appeals, Collection, Examination, and NTA's Office are all represented. To carry out this charter, the task force:

- Considers problem areas involving real or perceived inequitable treatment of taxpayers.
- Develops and recommends legislative and administrative solutions.
- Recommends corrective actions to the NTA.
- Considers egregious situations identified through various external and internal sources including but not limited to PSDs.
- Seeks field input to the greatest extent possible.

The Task Force continuously scans the current IRS environment in order to identify and implement changes needed to strengthen equity in tax administration. The primary focus is the smaller taxpayer although no taxpayer category is excluded. Input is solicited from all quarters and regular meetings are held with outside stakeholders for this purpose. We anticipate that as CAPs are developed they will become another source of outside input to the Task Force. The Task Force assesses the need for change as supported by evidence beyond single case problems, determines priorities, and fully researches the problems accepted for review. Where change is not recommended, factual reasons for maintaining the status quo are included. Where change is recommended, in addition to the reasons that change is determined to be necessary, recommendations from the task force:

- Identify whether the recommendation requires either administrative or legislative changes;
- Specify, to the degree practicable, the wording to be used in the program change(s) or legislative proposal(s), and
- Provide background information.

Conclusions and recommendations emanating from the Taxpayer Equity Task Force are considered at the highest levels of the IRS. Administrative recommendations endorsed by the NTA are sponsored by the affected function(s) for implementation as

soon as possible. Legislative change recommendations are forwarded directly to Congress through the NTA.

APPENDICES

I. TAXPAYER ADVOCATE DIRECTORY

NATIONAL OFFICE

National Taxpayer Advocate

1111 Constitution Ave. NW
Washington, DC 20224
(202)622-4300
FAX(202)622-4318

**EXECUTIVE OFFICER FOR SERVICE
CENTER OPERATIONS****EOSCO Taxpayer Advocate**

312 Elm Street
Cincinnati, OH 45201
(513)684-6433
FAX (513)684-3970

REGIONAL TAXPAYER ADVOCATES**Midstates Region**

4050 Alpha Road, Stop 1005-MSRO
Dallas, TX 75244
(972)308-7019
FAX (972)308-7166

Northeast Region

P.O. Box 2815
Church Street Station
New York, NY 10008
(212)298-2015
FAX (212)298-2016

Southeast Region

P.O. Box 926
Room 2016
Atlanta, GA 30370
(404)331-4506
FAX (404)730-3272

Western Region

1650 Mission Street
Room 401
San Francisco, CA 94103
(415)575-7059
FAX (415)575-7057

SERVICE CENTERS

Andover

P.O. Box 9311, Stop 120
Andover, MA 01810
(978)474-5549
FAX (978)474-5640

Atlanta

P.O. Box 48-549, Stop 29A
Doraville, GA 30362 *or*
4800 Buford Highway, Stop 29-A
Chamblee, GA 30341
(770)455-2050
FAX (770)455-2527

Austin

P.O. Box 934, Stop 1005
Austin, TX 78767 *or*
3651 S. Interregional Highway
Stop 1005-AUSC
Austin, TX 78741
(512)460-8300
FAX (512)460-1930

Brookhaven

P.O. Box 960, Stop 102
Holtsville, NY 11742 *or*
1040 Waverly Ave., Stop 102
Holtsville, NY 11742
(516)654-6686
FAX (516) 447-4879

Cincinnati

P.O. Box 1235, Stop 11
Cincinnati, OH 45201
(606)292-5316
FAX (606)292-5405

Fresno

P.O. Box 12161, Stop 01
Fresno, CA 93996 *or*
5045 East Butler Ave., Stop 1
Fresno, CA 93888
(559)454-6437
FAX (209)456-5272

Kansas City

P.O. Box 24551, Stop 1005-KSC
Kansas City, MO 64131
(816)926-2493
FAX (816)823-1932

Memphis

P.O. Box 30309AMF, Stop 13
Memphis, TN 38130
(901)546-2180
FAX (901)546-2181

Ogden

P.O. Box 9941, Stop 1005
Ogden, UT 84409 *or*
1160 W. 1200 South Street, Stop 1005
Ogden, UT 84201
(801)620-7168
FAX (801)620-6319

Philadelphia

P.O. Box 16053, DP #111
Philadelphia, PA 19114
(215)516-2499
FAX (215)516-2677

DISTRICT AND LOCAL OFFICES**Alabama** (BIRMINGHAM OFFICE)

801 Tom Martin Dr., Room 150-PR
Birmingham, AL 35211
(205)912-5631
FAX (205)912-5632

Alaska (ANCHORAGE OFFICE)

949 East 36th Ave., Stop A-405
Anchorage, AK 99508
(907)271-6877
FAX (907)271-6824

Arizona (PHOENIX OFFICE)

210 E. Earll Dr., Stop 1005-PX
Phoenix, AZ 85012
(602)207-8240
FAX (602)207-8250

Arkansas (LITTLE ROCK OFFICE)

700 West Capitol St., Stop 1005-LIT
Little Rock, AR 72201

(501)324-6269

FAX (501)324-5183

California (LAGUNA NIGUEL OFFICE)

P.O. Box 30207
Laguna Niguel, CA 92607 *or*
24000 Avila Road, Room 3362
Laguna Niguel, CA 92677
(714)360-2175
FAX (714)360-2463

(LOS ANGELES OFFICE)

P.O. Box 531791
Los Angeles, CA 90053 *or*
300 N. Los Angeles Street, Rm. 5206.
Stop 1005-LA
Los Angeles, CA 90012
(213)894-6954
FAX (213)894-6365

(SACRAMENTO OFFICE)

P.O. Box 2900, Stop SA 5043
Sacramento, CA 95812 *or*
4330 Watt Avenue
N. Highlands, CA 95660
(916)974-5007
FAX (916)974-5902

(OAKLAND/SAN FRANCISCO OFFICE)

1301 Clay Street, #1540S
Oakland, CA 94612
(510)637-2703
FAX (510)637-2715

(SAN JOSE OFFICE)

P.O. Box 100, Stop HQ0004
San Jose, CA 95103 *or*
55 S. Market Street, #900
San Jose, CA 95113
(408)494-8210 FAX (408)494-8065

Colorado (DENVER OFFICE)

600 17th Street, Stop 1005
Denver, CO 80202
(303)446-1012
FAX (303)446-1011

Connecticut (HARTFORD OFFICE)

135 High Street, Stop 219
Hartford, CT 06103
(860)240-4179

FAX (860)240-4023

Delaware (WILMINGTON OFFICE)

409 Silverside Road
Wilmington, DE 19809
(302)791-4502
FAX (302)791-4511

District of Columbia (BALTIMORE OFFICE)

P.O. Box 1553, Room 620A
Baltimore, MD 21203 *or*
31 Hopkins Plaza, Room 1130
Baltimore, MD 21201
(410)962-2082
FAX (410)962-9340

Florida (FT. LAUDERDALE OFFICE)

P.O. Box 17167
Plantation, FL 33318 *or*
One N. University Dr., Room A-312
Plantation, FL 33324
(954)423-7677
FAX (954)423-7685

(JACKSONVILLE OFFICE)

P.O. Box 35045, Stop D:PRO
Jacksonville, FL 32202 *or*
400 West Bay St., Suite 35045, Room 116
Stop D:DTA
Jacksonville, FL 32202
(904)232-3440
FAX (904)232-2266

Georgia (ATLANTA OFFICE)

P.O. Box 1065
Stop 202-D, Room 1520
Atlanta, GA 30370 *or*
401 W Peachtree Street, NW
Summit Bldg., Stop 202-D, Room 1520
Atlanta, GA 30365
(404)331-5232
FAX (404)730-3438

Hawaii (HONOLULU OFFICE)

300 Ala Moana Blvd.,
Stop H-405
Honolulu, HI 96850
(808)541-1158
FAX (808)541-3379

Idaho (BOISE OFFICE)

550 West Fort Street,
Box 041
Boise, ID 83724
(208)334-1324
FAX (208)334-9240

Illinois (CHICAGO OFFICE)

230 S Dearborn St.,
Rm. 3214, Stop 1005-CHI
Chicago, IL 60604
(312)886-9183
FAX (312)886-1564

(SPRINGFIELD OFFICE)

320 W. Washington Street, Stop 1005-SPD
Springfield, IL 62701
(217)527-6382
FAX (217)527-6332

Indiana (INDIANAPOLIS OFFICE)

P.O. Box 44687, Stop 11
Indianapolis, IN 46244 *or*
575 N Pennsylvania St, Stop 11
Indianapolis, IN 46204
(317)226-6332
FAX (317)226-6222

Iowa (DES MOINES OFFICE)

210 Walnut Street, Stop 1005
Des Moines, IA 50309
(515)284-4780
FAX (515)284-6645

Kansas (WICHITA OFFICE)

271 W. 3rd Street North
Stop 1005-WIC
Wichita, KS 67202
(316)352-7506
FAX (316)352-7212

Kentucky (LOUISVILLE OFFICE)

600 Dr. MLK Jr. Plaza, Federal Bldg, Rm. 363
Louisville, KY 40202
(502)582-6030
FAX (502)582-6463

Louisiana (NEW ORLEANS OFFICE)

600 South Maestri Place, Stop 12
New Orleans, LA 70130
(504)558-3001
FAX (504)558-3250

Maine (AUGUSTA OFFICE)
68 Sewall St., Room 311
Augusta, ME 04330
(207)622-8528
FAX (207)622-8458

Maryland (BALTIMORE OFFICE)
P.O. Box 1553, Room 620A
Baltimore, MD 21203 *or*
31 Hopkins Plaza, Room 1130
Baltimore, MD 21201
(410)962-2082
FAX (410)962-9340

Massachusetts (BOSTON OFFICE)
25 New Sudbury Street
Boston, MA 02203
(617)565-1857
FAX (617)565-4959

Michigan (DETROIT OFFICE)
P.O. Box 330500, Stop 7
Detroit, MI 48232 *or*
McNamara Federal Bldg.
477 Michigan Ave., Room 2492
Detroit, MI 48226
(313)628-3670
FAX (313)628-3669

Minnesota (ST. PAUL OFFICE)
316 North Robert Street, Stop 1005
St. Paul, MN 55101
(651)290-3628
FAX (612)290-4236

Mississippi (JACKSON OFFICE)
100 W. Capitol Street, Stop JK31
Jackson, MS 39269
(601)965-4800
FAX (601)965-5251

Missouri (ST. LOUIS OFFICE)
P.O. Box 66776, Stop 1005-STL
St. Louis, MO 63166 *or*
Robert A. Young Bldg.
1222 Spruce Street, Stop 1005-STL
St. Louis, MO 63103
(314)539-6770
FAX (314)539-2362

Montana (HELENA OFFICE)

Federal Building
301 S. Park, Stop 105-HEL
Helena, MT 59626
(406)441-1022
FAX (406)441-1035

Nebraska (OMAHA OFFICE)
106 S 15th St., Stop 1005-OMA
Omaha, NE 68102
(402)221-4181
FAX (402)221-3051

Nevada (LAS VEGAS OFFICE)
4750 West Oakey Blvd., Room 303
Las Vegas, NV 89102
(702)455-1241
FAX (702)455-1216

New Hampshire (PORTSMOUTH OFFICE)
P.O. Box 720
Portsmouth, NH 03802 *or*
Federal Office Bldg., 80 Daniel Street
Portsmouth, NH 03801
(603)433-0571
FAX (603)433-7809

New Jersey (NEWARK OFFICE)
P.O. Box 1143
Newark, NJ 07102 *or*
970 Broad St.,
Newark, NJ 07102
(973)645-6698
FAX (973)645-3323

New Mexico (ALBUQUERQUE OFFICE)
5338 Montgomery Blvd. NE, Stop 1005-ALB
Albuquerque, NM 87109
(505)837-5505
FAX (505)837-5519

New York (ALBANY OFFICE)
Leo O'Brien Federal Building, Room 617
Clinton Ave. & N. Pearl Street
Albany, NY 12207
(518)431-4435
FAX (518)431-4697

(BROOKLYN OFFICE)
GPO Box R
Brooklyn, NY 11202 *or*
10 Metro Tech Center, 625 Fulton Street

Brooklyn, NY 11201
(718)488-2080
FAX (718)488-3100

New York (BUFFALO OFFICE)
P.O. Box 500, Niagara Square Station
Buffalo, NY 14201 *or*
Thaddeus J. Dulski FOB, 111 W. Huron St.
Buffalo, NY 14202
(716)551-4574
FAX (716)551-5473 *or* (716)551-5860

(MANHATTAN OFFICE)
P.O. Box 408
Church Street Station
New York, NY 10008 *or*
290 Broadway, 7th Floor
New York, NY 10007
(212)436-1011
FAX (212)436-1900

North Carolina (GREENSBORO OFFICE)
320 Federal Place, Room 125
Greensboro, NC 27401
(336)378-2180
FAX (910)378-2495

North Dakota (FARGO OFFICE)
P.O. Box 8
Fargo, ND 58107 *or*
657 2nd Avenue North, Stop 1005-FAR
Fargo, ND 58102
(701)239-5141
FAX (701)239-5104

Ohio
(CINCINNATI OFFICE)
550 Main Street, Room 7010
Cincinnati, OH 45202
(513)684-3094
FAX (513)684-6417

(CLEVELAND OFFICE)
P.O. Box 99709
Cleveland, OH 44199 *or*
1240 E Ninth Street
Cleveland, OH 44199
(216)522-7134
FAX (216)522-2947

Oklahoma (OKLAHOMA CITY OFFICE)

55 N. Robinson, Stop 1005-OKC
Oklahoma City, OK 73102
(405)297-4055
FAX (405)297-4056

Oregon (PORTLAND OFFICE)
1220 SW 3rd, Stop O-405
Portland, OR 97204
(503)326-2333
FAX (503)326-5453

Pennsylvania (PHILADELPHIA OFFICE)
P.O. Box 12010
Philadelphia, PA 19106 *or*
600 Arch Street, Room 7214
Philadelphia, PA 19106
(215)861-1304
FAX (215)861-1613

(PITTSBURGH OFFICE)
P.O. Box 705
Pittsburgh, PA 15230 *or*
1000 Liberty Ave., Room 1102
Pittsburgh, PA 15222
(412)395-5987
FAX (412)395-4769

Rhode Island (PROVIDENCE OFFICE)
380 Westminster Street
Providence, RI 02903
(401)528-4317
FAX (401)528-4312

South Carolina (COLUMBIA OFFICE)
1835 Assembly Street, Room 571, MDP 03
Columbia, SC 29201
(803)253-3029
FAX (803)253-3910

South Dakota (ABERDEEN OFFICE)
115 4th Ave. Southeast, Stop 1005-ABE
Aberdeen, SD 57401
(605)226-7248
FAX (605)226-7270

Tennessee (NASHVILLE OFFICE)
P.O. Box 1107 (Stop 22)
Nashville, TN 37202 *or*
801 Broadway, Stop 22
Nashville, TN 37203
(615)736-5219

FAX (615)736-7489

Texas (AUSTIN OFFICE)

300 E. 8th Street, Stop 1005-AUS
Austin, TX 78701
(512)499-5875
FAX (512)499-5687

(DALLAS OFFICE)

1100 Commerce Street, MC1005DAL
Dallas, TX 75242
(214)767-1289
FAX (214)767-0040

(HOUSTON OFFICE)

1919 Smith Street, Stop 1005-HOU
Houston, TX 77002
(713)209-3660
FAX (713)209-3708

Utah (SALT LAKE CITY OFFICE)

50 South 200 East, Stop 1005-SLC
Salt Lake City, UT 84111
(801)799-6958
FAX (801)779-6957

Vermont (BURLINGTON OFFICE)

Courthouse Plaza
199 Main Street
Burlington, VT 05401
(802)860-2008
FAX (802)860-2006

Virginia (RICHMOND OFFICE)

P.O. Box 10113, Room 5502
Richmond, VA 23240 *or*
400 North 8th Street, Room 316
Richmond, VA 23240
(804)771-2643
FAX (804)771-2008

Washington (SEATTLE OFFICE)

915 2nd Avenue, Stop W-405
Seattle, WA 98174
(206)220-6037
FAX (206)220-6047

West Virginia (PARKERSBURG OFFICE)

P.O. Box 1040, Room 1004
Parkersburg, WV 26102 *or*
425 Juliana Street

Parkersburg, WV 26101
(304)420-6616
FAX (304)420-6682

Wisconsin (MILWAUKEE OFFICE)

310 West Wisconsin Avenue
Room M-28, Stop 1005-MIL
Milwaukee, WI 53203
(414)297-3046
FAX (414)297-3362

Wyoming (CHEYENNE OFFICE)

5353 Yellowstone Rd., Room 206A
Stop 1005-CHE
Cheyenne, WY 82009
(307)633-0800
FAX (307)633-0880

Taxpayers Living Abroad or in U.S. Territories

A/C INTERNATIONAL

P.O. Box 4817, L'Enfant Plaza Station
Washington, DC 20224 *or*
950 L'Enfant Plaza, SW
Washington, DC 20224
(202)874-1930 FAX (202)874-1752

II. GLOSSARY

ACRONYM	DEFINITION
ACCSP	Atlanta Consolidated Call Site Project
ACD	Automatic Call Distributor
ACS	Automated Collection System
ADC	Area Distribution Center
ATSC	Atlanta Service Center
ATAO	Application for Taxpayer Assistance Order
ATG	Audit Technique Guide
AUR	Automated Underreporter
BID	Business Information Database
BSC	Brookhaven Service Center
CAF	Centralized Authorization File
CAP	Citizen Advocacy Panel
CC	Chief Counsel
CEP	Coordinated Examination Program
CS	Customer Service
CSED	Collection Statute Extension Date
CY	Calendar Year
CSED	Collection Statute Extension Date
DMF	Debtor Master File
EFTPS	Electronic Federal Tax Payment System
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
EOSCO	Executive Officer for Service Center Operations
FIFO	First In First Out
FMS	Financial Management Service
FSC	Fresno Service Center
FTD	Federal Tax Deposit
FTF	Failure-to-File
FY	Fiscal Year
IA	Installment Agreement
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IRA	Individual Retirement Account
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
ITIN	Individual Taxpayer Identification Number
IVT	Interactive Video Training
LIFO	Last In First Out
LOA	Level of Access
MSR	Midstates Region

NER	Northeast Region
NRC	National Resource Center
NTA	National Taxpayer Advocate
OETAC	Office of Employment Tax Administration and Compliance
OPA	Office of Penalty Administration
OSC	Ogden Service Center
PLO	Public Liaison Office
PRO	Problem Resolution Officer
PROMIS	Problem Resolution Office Management Information System
PRP	Problem Resolution Program
PRPCIT	Problem Resolution Program Central Inventory Tracking System
PSC	Philadelphia Service Center
PSD	Problem Solving Day
QUIPS	Quality Improvement Priority Score
RIS	Request for Information Services
RO	Revenue Officer
RRA '98	Restructuring and Reform Act of 1998
RUF	Reduce Unnecessary Filing
SBAO	Small Business Affairs Office
SER	Southeast Region
SERP	Servicewide Electronic Research Program
SSN	Social Security Number
STAWRS	Simplified Tax and Wage Reporting System
TA	Taxpayer Advocate
TAMIS	Taxpayer Advocates Management Information System
TAO	Taxpayer Assistance Order
TBOR2	Taxpayer Bill of Rights Two
TEBB	Taxpayer Service Electronic Bulletin Board
TIN	Taxpayer Identification Number
TRA	Taxpayer Relief Act
TRIS	Telephone Routing System
USPS	United States Postal Service
VRU	Voice Response Unit
WR	Western Region